HUNDRED AND TWENTY SEVENTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1982-83)

(SEVENTH LOK SABHA)

COFFEE BOARD

MINISTRY OF COMMERCE

[Paragraph 31 of Advance Audit Report 1979-80 (Civil)]

Presented in Lok Sabha on 24 MAR 1983

Laid in Rajya Sabha on .....

LOK SABHA SECRETARIAT
NEW DELHI

February, 1983/Magha, 1904 (S)

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Minutes of sittings of the Public Accounts Committee held on :

18 January, 1982

2 February, 1982

29 January, 1983

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PUBLIC ACCOUNTS COMMITTEE
(1982-83)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Hundred and Twenty Seventh Report on Paragraph 31 of the Advance Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil) relating to Coffee Board.

2. The Advanced Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil) was laid on the Table of the House on 27th April 1981. The Committee examined the audit paragraph on the subject at their sittings held on 18th January (FN & AN) 2 February, 1982 (FN & AN). The Committee considered and finalised the Report at their sitting held on 29 January, 1983. Minutes of these sittings of the Committee form Part II* of the Report.

3. The Committee have recommended that Government should undertake an in-depth study of the present constitution of the Board and reorganize the Board so as to ensure that it represents truly all the affected interests including the labour employed in the coffee plantations. Since the Board has an ambitious programme to promote coffee in non-traditional States, it is necessary that such States are given due representation on the Coffee Board. Further, the representation of the small growers, who constitute more than 90 per cent of the total number of growers, should be suitably increased to safeguard their interests. The Committee have desired that the Coffee Board should be so reorganized as to ensure that its functioning is reoriented and streamlined to enable it to meet successfully the changing conditions in coffee cultivation, industry and trade both in India and abroad.

4. The Committee have further urged that financial assistance on a much larger scale than provided so far should be arranged if the productivity of the small growers is to be stepped up. To this end, the feasibility of getting bank credit extended to them directly under the differential rate of interest (DRI) scheme may be considered by the Government.

5. The efforts of the Coffee Board to promote cooperatives among the small coffee growers have not yielded any significant results. The Committee have, therefore, urged that the Board should redouble its efforts in this direction so that the small coffee growers could be helped in a substantial manner *via* the cooperatives. The Committee have further urged that the proposal to set up curing works in the public sector be pursued vigorously with the ultimate object of taking over the entire curing function in a phased manner. The feasibility of setting up cooperative of growers for undertaking curing work may also be examined.

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6. For reference facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix II to the Report.

7. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

8. The Committee would also like to express their thanks to the Officers of the Ministry of Commerce and the Coffee Board for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
February 15, 1983
Magha 26, 1904 (*S*)

SATISH AGARWAL
Chairman
Public Accounts Committee

REPORT

CHAPTER-I

THE COFFEE BOARD

(A copy of para 31 of C & AG Advance Report (Civil)—(1979-80)—Coffee Board on which this Report is based is given in Appendix-I)

Organisational set up & Functions

1.1 The Coffee Board Bangalore, was established under the Coffee Act, 1942 as a corporate body to promote the development of coffee industry in India. It is empowered under the Act to control export and internal consumption of Indian Coffee, sell coffee delivered to surplus pool by the coffee estates, act as a licensing authority for coffee curing establishments, etc. It also undertakes measures for (i) promoting agriculture and technological research in coffee, (ii) increasing production, sale and consumption of coffee in India and elsewhere, (iii) assisting coffee estates in their development activities and (iv) ensuring welfare of workers in coffee industry.

1.2 The Coffee Board consists of 33 Members, including the Chairman and the dispensation of Members of the Board among several interests *viz.* Coffee growers-10 (5 large growers and 5 small growers—provided that not less than 3 of such members shall represent the Robusta growers); coffee trade-2; coffee consumers-5; Parliament-3, State Governments of Karnataka, Andhra Pradesh, Kerala and Tamil Nadu-1 each; curing establishments-1; Labour-4 and other interests-3.

1.3 Of the 3 Members of Parliament, two Members are elected by the Lok Sabha and one by Rajya Sabha. All the other 29 Members are appointed by the Central Government.

1.4 The present Board has been reconstituted by the Government of India with effect from 1 July, 1981 for a period of three years.

1.5 Asked about their views regarding the structure of the Coffee Board as a regulatory body, the Chairman, Coffee Board stated during evidence:

> "The present structure, by and large, gives representation to all concerned interests in the sense that the Parliament, the State Governments concerned, the large and small growers, the trade, the processing units, labour and consumers are represented.

In addition to that, Government have the power of appointing three persons representing other interests and to fill up any vacuum or gap. By and large, the constitution, as it is, has been functioning satisfactorily and it has stood the test of time except that some people have some feelings about inadequacy of representation...As far as I am concerned, the representation is no doubt satisfactory, but I can communicate the feelings of some sections of the growers who feel that they are a little under-represented in the sense that originally they used to have twelve representatives on the Board but following the recommendation of a Parliamentary Committee, Government proposed a change and Parliament passed an amendment reducing the number from twelve to ten; they also reduced the trade representatives from three to two; they increased the consumer interests from three to five. So, the the growers are a little worried. Incidentally, they also feel that in decision making about fixation of price, it would not be correct that the trade interests who are directly involved in the purchase of that commodity are put on important committees like Market Committee, etc; trade expertise could be represented instead of trade interests....From my side I submit, that the representation as it is, is satisfactory and is functioning well."

1.6 The Committee desired to know the procedure followed in the Ministry for processing nominations to the Board, The Commerce Secretary stated:

"We get the recommendations from the Board. In consultation with the State Governments and other Associations, they submit the proposal to us and then it is the prerogative of the Minister to finalise the list. It is at this particular stage that we play an important role in modifying it, if required, to suit the real requirements of the Act."

1.7 The Committee pointed out that several complaints regarding the manner of constitution of the present Board had been received and some complainants had even gone to the court of law for redressal of their grievances. A note furnished by the Ministry of Commerce in this regard is reproduced below:

"The Coffee Board was recently constituted on the 1st July, 1981, for a period of 3 years *vide* this Ministry's Notification in the Official Gazette Extra-ordinary of that date.

Representations were received from the following Associations/ individuals, *inter-alia*, about inadequate representation to their

respective regional interests. Briefly, the contents of these representations are as under:

(1) *Wynad Coffee Growers' Association*

Inadequate and disproportionate representation has been given to Kerala Coffee Growers. Although Kerala accounts for 53.9 per cent of the total coffee growers of the country, it has been given only one seat whereas Tamil Nadu, which has only around 61 per cent of Kerala's acreage and just 30 per cent of Kerala's growers, has been given three seats. Karnataka, which has only half of the total number of Kerala's growers, has been given six seats. Moreover out of the three Robusta growers, 2 are from Karnataka and only one from Kerala.

(2) *Karnataka Planters' Association*

Out of the panel of names of Coffee Growers from Coorg, Chickmagalur and Hassan Districts of Karnataka, representation has been given only to one member from Coorg.

(3) *Shri A. C. Shive Gowda*

The reconstituted Coffee Board does not have representation for Coffee Growers from Chikmagalur and Hassan Districts of Karnataka.

(4) *The Planters' Association, Chikmagalur*

The Coffee Growers of Chikmagalur District of Karnataka have not been represented on the reconstituted Coffee Board.

It may also be submitted in this connection that a writ petition filed in the High Court of Kerala by S/Shri Shanti Prashad and M.P. Shanti Verma Jain, Coffee Growers from Wynad District of Kerala, is pending in the Hon'ble High Court.*

1.8 In their petition filed in the Kerala High Court in September, 1981 challenging nomination of some of the members of the Coffee Board, the petitioners have *inter-alia* pointed out as follows:

"Of the total Robusta area in India, Kerala tops the list by 55.06 per cent while Karnataka has only 8.87 per cent and Tamil Nadu has only 5.91 per cent, the balance shared by other States. Of the total Coffee Estates, Kerala has 51 per cent, Karnataka has 28 per cent and Tamil Nadu has 16 per cent the balance in other States. Considering the area of Robusta cultivation in the whole country and the number of growers, Kerala plays a vital role in the Coffee Industry in all aspects

of its activity. Unfortunately, the present Board now constituted has only one grower representation from Kerala while Karnataka has 6 and Tamil Nadu. In the previous Board the Grower representatives for Karnataka were 6, for Kerala 2 and Tamil Nadu 2.

Coffee Board, unlike other Commodity Boards has a unique feature in that all the producers are statutorily compelled to pool their produce. The Board makes its decisions through powerful Committees, regarding export and internal allocation, evolving pricing policy, regulating supplies to the market, storing and curing of coffee, determining the payment to the Growers, utilising labour Welfare Fund, distributing and sharing pool money realisation, undertaking agricultural and technological research, making grants to coffee estates and performing all other incidental matters covering the whole coffee industry.

Kerala Growers are predominantly Robusta growers and the export and internal allocation of supplies in the market has a vital bearing on the fortune or fate of the Kerala Growers. Kerala's area under Arabica is nominal and negligible and therefore it is the Kerala Grower alone who can crusade and voice the interests of exclusive robusta growers.

* * * * *

Two members have to represent the Coffee trade interests. The two persons so nominated are ....of Consolidated Coffee Limited one of the biggest planters and growing exporters. Karnataka has 3 members on the Coffee Board: (1) Shri.....stated to represent the Trade Interest, (2) Shri ..... stated to represent the consumer interest and (3) Shri..... .....representing the interest of curing. All the 3 persons are Directors of Consolidated Coffee Limited. There is, therefore, a monopolistic nomination in favour of one planter, one company when three of its Directors under the guise of representing three different interests are nominated

* * * * *

There is also an Adviser (Coffee) North Eastern Council nominated to represent "other interests". This nomination is also bad for the reasons already stated, namely that the other interests which he represents have not been specified. Moreover, he is an employee of the Coffee Board now on deputation. An

employee is not entitled to be on the Board. As an employee he is subordinate to the Board and will not be able to give independent advise or assert his individuality to be effective in the deliberations of the Board."

1.9 The petitioners have further stated:

"Section 4 states that the nominations have to be made by the Government under Clause C "from among persons who are in its own opinion capable of representing". Similarly in Rule 3 it is stated "that the Government may make consulations before appointing a representative of the interests'. A capacity of representing and a consequent responsibility of accountability are both required to be safeguarded before nominations are made. In other words there has to be assessment of the capacity to represent and the accountability of that person which he has to represent before any nominations could be made...To the petitioners' knowledge the Government have not formulated any principles as to how the consulation machinery should be employed and utilised. They cannot, without any guidelines and without any principles made known to the public, make nominations without any consultations and then contend that there was some form of consultations. The words 'in the opinion of the Government' do not clothe the first respondent with any such arbitrary power".

1.10. The Committee enquired whether all such complaints and representations were brought to the notice of the Minister at the appropriate stage. The Commerce Secretary, stated:

"It is really a matter of interpretation. I presume that, when the Ministry took this decision on 1st July, 1981, they did take everything into account and they thought that this would be the best way of representing the interests and finalised the list."

1.11 Asked how the interests of the growers particularly the small growers had been protected, the Ministry of Commerce have stated:

"It will be seen that the largest single interest represented in the Board is that of growers. Also, the small growers have an equal say in the working of the Coffee Board as compared to the large growers due to the stipulation that five out of 10 grower members are to be small growers. Further, grower members including small growers are also represented in the

various statutory Committees of the Board. Details are furnished below:

Name of Committee	Total No. of Members	Growers members
Executive Committee	8	2
Marketing Committee	15	6
Development Committee	7	5 (Three small growers and 2 large growers)."

1.12. The Committee desired to know whether the Coffee Board as structured at present had been able to carry out the tasks assigned to it in an effective manner and whether any changes were contemplated to make it more effective and purposeful. The Commerce Secretary stated in evidence:

> "Actually we were looking at the performance of the Coffee Board and subject to the corrections which have been rightly brought out by the Chairman, we felt that productivity-wise and export-wise the performance has been good and by and large we also got the feed back that the growers stand to benefit by the performance of the Coffee Board and keeping that in view we did not really consider that any fundamental or drastic changes are required to be made in the Coffee Board organisation. But we definitely feel that more has got to be done in terms of monitoring the work which has been done on research and technology and at the same time to see that the price that we get in the international market and at the contractual level should improve."

1.13. In reply to a further question, the Chairman, Coffee Board stated:—

> "From the point of view of production, payments to growers and marketing operations our Board is recognised as one of the best organisations obtaining in the world, with the result, now so many foreign countries seek our advice not only on the operational side of market but from the point of view of technology development. We are pioneers in science and technology."

1.14. To a question whether any management study of the Board had ever been done at the Ministry level to judge its performance, the Commerce Secretary replied in the negative and added:

> "The basis of review and examination is the monthly reports which they are submitting to us. Another thing is that periodically

we take into account the work of the different Boards and we get all the Chairmen and senior officers in a meeting and try to assess what they have done and what are the bottlenecks for which some steps should be taken."

1.15 Asked whether the Ministry did not consider it necessary to have a management study carried out about the working of the Coffee Board, the Commerce Secretary stated:

"Actually, after following the proceedings of the meeting here, I definitely say that there is a need for such a study."

1.16 On his attention being drawn to the fact that the structure of the Coffee Board had been provided for by an Act of Parliament which was fairly old, the witness stated that the Indian Institute of Management, Ahmedabad had recently undertaken a study of the working of the Coffee Board.

The Chairman, Coffee Board added:—

"The Board themselves decided that a detailed study should be got done from the point of view of assessing the existing structure whether it will be equal to the present task and also to the future growing tasks. They submitted a report and the Board appointed a high powered committee to go through the Report and then make the final recommendations.

1.17 Asked whether the Board consulted the Ministry of Commerce while constituting the high powered Committee, the withness stated:

"We need not consult because the study was commissioned by us and before we submit a final report to the Government, the Board will have to take a final view on the report.

To help the Board to take a final view, the Board themselves constituted a Committee. After the Board takes a final view on the report, we will submit a detailed report to the Government.....The Committee is going item by item and sometimes they take two or three sittings for completing one of the items. There are important items. They are coming up for discussion before the Board, for example, item relating to the constitution of the Development Fund."

1.18 In reply to a question regarding the principal findings of the study carried out by the Indian Institute of Management Ahmedabad, the Chairman, Coffee Board stated:

The Board has been functioning for the last three or four decades practically without any expansion in its structure, particularly in Departments like Marketing, Research, Extension and Financial Accounting.

The volume of transactions have increased perceptibly by more than 100 per cent and the outlook for the next 5 to 10 years with reference to the perspective Plan which we prepared are:

Firstly, there is need for restructuring the organisation with reference to the functional job specifications, suggesting recruitment procedures and selection methods.

Secondly, to evolve a method of selection related to job specifications in the various Departments.

Thirdly, to introduce a system of management reporting from the field, from the various Departments.

And to suggest horizontal induction into the various Departments and the expertise that is needed to handle the existing levels and the future levels of operation.

Like this, by and large, the entire gamut of operations of the commodity trading and commodity structure was given including the need for amending the provisions of the existing statue, and in that event, what are the provisions that require amendment to suit the future implementation of restructuring the organisation."

1.19 Asked whether the decision to set up a Committee to scrutinise the finding of the Indian Institute of Management was that of the full Board or of the Executive, the witness stated that it was a decision of the full Board. The Committee had made recommendations to the Board. The Board would have to pass a resolution and submit a report to the Government.

1.20 Asked why the question was not discussed with the Ministry of Commerce, the witness stated:

"The Board has to make a close and detailed study because there are two or three important areas where the growers are vitally interested. There are the areas which have to be subjected to detailed study before the full Board took up the matter for consideration. That will be done soon because in any case we have to go to the Government finally with the recommendations of the Board, by which time the Board will have to be seized of the matter and, then, they will go into it in detail."

1.21 To another question whether Government was kept posted with all these developments, the Joint Secretary, Ministry of Commerce stated in evidence:

"Since I have taken over charge in the month of May, I have not come across any paper which threw light on the appointment

of this Committee by the Coffee Board.....As the Secretary, Ministry of Commerce, has assured, I will check up the records and send a report to the Committee later."

In this connection, the Commerce Secretary added:

"This should have surely come to our notice. I agree that even if we are not on the Board, we should have the reports monthly. There is no reason why this escaped our notice."

1.22 In a further note on the subject, the Ministry, have stated:

"The decision to commission I.I.M., Ahmedabad to undertake a study of the organisational set up of the Board was taken at the 176th meeting of the Marketing Committee and the 100th meeting of the Executive Committee held on 18th September 1976. The Resolution on the subject adopted by these two Committees as follows:—

In the light of the experience of the functioning of the Board for over three decades, in the context of vast increase in the turnover of the business of the Board and the recognition accorded to the Board by the Government of India as an Export House from 1-1-1975 and in the light of the recommendations and observations made by Special Committees, Audit and the Public Accounts Committee from time to time, the need for taking up a scientific study of the existing organisational set up of the Board from the point of view of its adequacy to handle its present assigned role and responsibilities and its future development needs is very much felt.

The Committee, therefore, decided to commission a detailed study of the Board's organisational set up from the point of view of its adequacy to handle its present assigned role and responsibilities and the future development needs with a view to reorganising the organisational structure and streamlining and modernising the methods and procedres of its working to meet the requirements of a growing efficient commercial body.

The Chairman was authorised to take all necessary steps to commission a detailed study in this regard either with the Administrative Staff College, Hyderabad, or the Indian Institute of Management, Ahmedabad/Bangalore or any other reputed consultancy organisation on management studies, incurring the necessary expenditure in this behalf from the Pool Fund.

The commissioning of the study by I.I.M. Ahmedabad was reported by the Chairman to the Board at the next meeting of the Board held on 10-3-1977. The progress in regard to the completion of the study was also considered by the Board at its meetings of 7-11-1977 and 31-3-1978.

1.23 As regards consultation with the Ministry before entrusting the study to Indian Institute of Management, the note states:

"The minutes of the 176th meeting of the Marketing Committee and the 100th meeting of the Executive Committee held on 18-9-1976 in which it was decided to commission a study by Indian Institute of Management Bangalore|Ahmedabad and of the meeting of the Board held on 10th March 1977 in which the Board was informed of the decision, were forwarded to the Government in the usual manner. However, the Ministry was not specifically consulted by the Board before entrusting this study to the Indian Institute of Management, Ahmedabad.

In such matters there is no specific requirement under the Act or Rules for prior consultation with Government and in any case the implementation of the recommendations arising out of the Indian Institute of Management study after being processed by the Board will be done only with the Government's approval."

1.24 As regards the present position of implementation of the recommendations made in the study, the note states:

"The report of the Indian Institute of Management was received in May, 1978. The Executive Committee, at its meeting held on 12th May, 1978, had, as authorised by the Board at its meeting held on 31st March, 1978, constituted a Special Committee consisting of nine members of the Board including the Chairman, and the Vice Chairman of the Board, one Expert from the Indian Institute of Management, Ahmedabad, who drafted the Report, Dr. N. C. B. Nath and C.C.M.O. as the Convenor to consider the report of the Indian Institute of Management, Ahmedabad and to review and propose necessary amendments to the Coffee Act/Rules in the context of the Board's expanding activities and to suggest strategies to be adopted for achieving increased operational efficiency.

With the term of the Board coming to a close in February 1981, the term of the Special Committee also came to a close. The new Board constituted by the Government of India with effect from 1-7-1981 has appointed the various Standing Committees including Executive Committee on 25-9-1981. The Executive

Committee has reconstituted the Special Committee at its meeting held in November, 1981.

The Special Committee will shortly complete its work relating to other items of reference and submit its final report to the Executive Committee and the Board."

1.25 Some of the important findings of the study carried out by the Indian Institute of Management, Ahmedabad are reproduced* below:—

(1) The Board needs to play a more aggressive role in market development, particularly in the non-traditional coffee consumption areas of the country. For this the Board needs to directly distribute coffee to consumers in non-traditional areas. It also needs to get involved in coffee processing and value addition. Processed coffee, in the form of coffee powder and instant coffee, is seen as the major instrument for market development.

(2) The initiative for setting up and managing a corporation (preferably a growers' cooperative) for coffee marketing and producing value-added products must come from the Board.

(3) An important aspect of the proposed role and functions of Coffee Board relates to ensuring attractive and stable returns to growers. The Board must assume a direct role in this respect by creating and managing a price stabilization fund.

(4) A special development fund for meeting the special extension and development needs of the small and marginal farmers should be created through ad-hoc grants from GOI. A part of the unusually heavy export duty collections of recent period can be pumped back into development of the industry through this mechanism.

(5) An extended functional organization structure is proposed for the Board with six major functional departments: marketing, research, development extension, secretarial, finance and accounts, and planning and new projects. In marketing, under CCMO, separate units headed by Directors for 'Procurement & Internal Sales' and 'Marketing in Non-traditional Markets' are proposed. It is recommended that the promotional function be integrated with marketing.

(6) A separate section to look after exports, and one for public relations and propaganda are proposed. It is also recommended that market research and quality control functions are carried out by independent units under the CCMO.

*Not vetted in Audit.

(7) An alternative organization for marketing that envisages setting up of an independent corporation for coffee marketing and value-added production is recommended. The corporation should preferably be a growers' cooperative with the Board also owning shares in it, in order to ensure that growers' interests are protected and furthered. Recommendations detailing the form of organization and its functions are provided.

(8) The tasks envisaged for the Board and organization structure recommended for carrying these out call for a professional organization capable of discharging its commercial functions efficiently and effectively. The Board would thus need to employ modern management systems and practices.

(9) The Board would need to equip itself suitably for its future role in terms of finances, number and quality of personnel, and management systems and practices. In order to do that, the Board must enjoy a high degree of freedom and flexibility in decision making in various spheres of its operations. Towards this end, some changes in the Coffee Act and Rules are needed.

(10) Some of the important areas of changes concern expansion in the size of the Board to include representatives of non-traditional coffee States, greater flexibility and fredom in appointment of personnel and decisions concerning the Board's establishment, greater delegation of powers to the Board and its officers, changes in financial rules and borrowing powers to enable acquisition of assets and investments in cooperatives or corporate bodies engaged in marketing, planting, processing and producing value-added coffee, etc.

1.26. The Coffee Board as constituted at present consists of a Chairman and 32 members representing various interests. 10 of these members represent coffee growers (5 large growers and 5 small growers). Dissatisfied with the manner in which the present Board has been constituted, the growers' associations have made several representations to the Government. A writ petition has also been filed in the High Court of Kerala in September, 1981 challenging some of the nominations.

1.27. The Committee find that serious allegations have been made in the petition with regard to the manner of nomination of the representatives of growers as members of the Coffee Board. It has inter alia been pointed out that the Government has not formulated any principles as to how the consultation machinery should be employed and utilized while deciding on the nominations.

1.28. The petition states that considering the area of robusta cultivation in the whole country and the number of growers, Kerala plays a vital role in the coffee industry both in terms of the area under cultivation and the total number of coffee estates. The petition has pointed out that as against two representatives of the robusts growers from Kerala previously on the Coffee Board, the present Board has only one. Apprehensions have also been expressed with regard to nomination of three persons associated with on planter company to represent different interests.

1.29. It has been further pointed out that the appointment of Adviser (Coffee), North Eastern Council to represent "other interests" is improper for the reason that the interests which he represents have not been specified. Morover, he is stated to be an employee of the Coffee Board now on deputation and as such is not entitled to be a member of the Board. Being an employee, he is subordinate to the Board and will not be able to give independent advice or assert his individuality to be effective in the deliberations of the Board.

1.30. As the matter is sub judice, the Committee would not like to go into the merits of the issue. They would, however, like to point out that it is necessary for Government to review the matter in depth so as to ensure that the representatives of the growers, who are statutorily required to surrender their produce to the Coffee Board, get proper and balanced representation on the Board Government must also ensure that whosoever is nominated as a representative of the growers, truly represents their interests and that the associations of the growers, particularly small growers, are fully consulted and their views given proper weightage while making the nominations. The Committee would like Government to lay down clear and specific guidelines in this regard.

1.31. The Committee are further of the view that since the Coffee Board has an ambitious programme to promote coffee in the non-traditional areas, it is necessary that such States are given due representation on the Board. The Committee, therfore, suggest that the Ministry of Commerce should undertake an indepth study of the present constitution of the Board in the light of changed conditions and effect necessary reorganisation of the Board so as to ensure that it represents truly all the affected interests including the labour employed in coffee plantations. In this connection, it would be useful to remember that such Boards are set up to serve the growers. The Committee, therefore, desire that the representation of small growers who constitute more than 90 per cent of the total number of growers, should also be suitably augmented. The Committee would like to be apprised of the decisions taken in the matter as early as possible.

1.32. As early as in September, 1976 the Marketing Committee and the Executive Committee of the Coffee Board decided "to commission a detailed

study of the Board's organizational set-up from the point of view of its adequacy to handle its present assigned role and responsibilities and the future development needs with a view to re-organize the organizational structure and streamlining and modernising the methods and procedures of its working to meet the requirements of a growing efficient commercial body." The Minutes of the aforesaid meetings of the Marketing Committee and the Executive Committee were forwarded to the Ministry in the usual manner. However, the Ministry was not specifically consulted by the Board before entrusting this study to the Indian Institute of Management, Ahmedabad.

1.33 The Committee find that on receipt of the Report of the Indian Institute of Management, Ahmedabad in May, 1978, the Board constituted a Special Committee to consider the Report and to review and propose necessary amendments to the Coffee Act/Rules. With the term of the Board coming to a close in February, 1981, the terms of the Special Committee also came to a close. The Executive Committee of the new Board, which was constituted by the Government of India with effect from 1st July, 1981, re-constituted the Special Committee at its meeting held in November, 1981. The Special Committee is expected to submit its final report to the Executive Committee and the Board shortly.

1.34. The Committee are greatly surprised to find that in such important matters as the review of the Coffee Act and the functioning of the Board in the light of changed conditions, the Board did not seem it necessary to keep the Ministry apprised of its decision to commission the services of the Indian Institute of Management, Ahmedabad. The Committee are not convinced with the argument that "there is no specific requirement under the Act or Rules for prior consultation with Government". The Committee are of the view that a study of such far reaching implications as this, inter alia in the light of the observations of the PAC from time to time, ought to have been initiated by Government or at least the terms thereof settled with the specific approval of Government. It is regrettable that the Ministry did not even take any cognizance of the minutes of the Executive Committee and the Marketing Committee containing their decision to institute the study. This only indicates the perfunctory nature of monitoring done by the Ministry with regard to the functioning of the Coffee Board.

1.35. The Committee regret to point out that even after a lapse of 4-1/2 years since the Report of the Indian Institute of Management, Ahmedabad became available to the Coffee Board, there is no evidence of any concrete steps having been taken by the Board or by the Ministry to implement the acceptable suggestions contained therein. It is obvious that had the Ministry kept a track of this development, matters would not have been allowed to drift. In paragraph 1.25, the Committee have drawn attention to several

useful suggestions which need to be given serious consideration. The Committee would therefore urge the Ministry to come out with specific proposals for reorganization of the coffee Board so as to ensure that its functioning is re-oriented and streamlined to enable it to meet successfully the changing conditions in coffee cultivation, industry and trade both in India and abroad. The Committee desire to be furnished with a detailed report on the action taken on the various suggestions contained in the study made by the Indian Institute of Management, Ahmedabad within a period of six months.

CHAPTER II

FINANCE & ACCOUNTS

(a) *Operation of General Fund and Pool Fund Accounts*

2.1 The Coffee Act provides for two distinct funds viz. General Fund and Pool Fund, both of which are administered by the Board. The General Fund is made up of all amounts paid to the Board by the Central Government from the proceeds of customs and excise duties levied on Coffee under the Act, all of which form part of the Consolidated Fund of India. The Pool Fund consists of sale proceeds of coffee delivered to the Pool by registered coffee growers.

2.2 The Audit para points out that any surplus in the pool fund after making payments to the owners of the estates who supplied coffee to the pool and meeting expenses on storage, curing, transport, marketing, etc. can, with the previous sanction of Government, be transferred to the credit of the general fund; the surplus had been so transferred to general fund to end of 1971-72 season only so far (October 1980). As on 31st October, 1978 the accumulated surplus in the pool fund account amounted to Rs. 16.16 crores.

2.3 Enumerating the steps taken regarding transfer of surplus amounts from the Pool Fund to the General Fund from 1972-73 season onwards, the Ministry of Commerce have stated as follows:—

> "The amount of Rs. 16.16 crores which has been referred to as the accumulated surplus in the Pool Fund Accounts as on 31 October, 1978 includes amounts awaiting distribution amongst the growers in respect of the coffee, pooled by them, but not yet claimed by them. These balances are allowed to be carried forward for three to four years from the date of becoming due to give a reasonable opportunity to the growers to claim and obtain their dues. Out of the amount of Rs. 16.16 crores referred to above, an amount of Rs. 9.31 crores had been distributed among the growers upto October, 1980. Undistributed surpluses have already been transferred to the General Fund upto the end of 1971-72 season. It is expected that the balances in the Pool Fund upto the end of 1973-74 season would, after making whatever payments are due, be transferred to the General Fund by 31-12-1981. For the period upto 1977-78 season, the review and transfer of undistributed balances is expected to be completed by

31-12-1982. These transfers, no doubt, will be made in accordance with the provisions of the Act."

2.4 The Chairman, Coffee Board explained during evidence:

"As far as the transfer of the so-called surplus amounts to the General Fund is concerned, as promised ,we have transferred the surplus amounts upto 1974-75 to the General Fund. But the problem here is that what are stated as surpluses in the audit paragraph are not such surpluses transferable to General Fund in the sense that they are shown in the annual accounts under the Head."

He further clarified:

"The surplus mentioned under the break-up of Rs. 16.16 crores in the Report consists of Rs. 2.10 crores as earlier balance and account No. 33 contains a distributable surplus of Rs. 14.06 crores. My submission is that the Board has decided earlier to prevent over-estimation and payment of extra amounts to the growers, the final instalment shall be declared and paid only after the finalisation and auditing of the accounts. In other words, in a year, on a transaction of about Rs. 180 to 190 crores, after disbursing the initial payments and the subsequent instalment payments, the amount estimated to be paid under the final instalment is exhibited under the Head "Excess income over expenditure". This amount of Rs. 14.06 crores represents an amount that has to be distributed to the growers subsequent to the completion and auditing of accounts. In other words, this amount of Rs. 14.06 crores will get distributed to the growers under the final instalment during the course of 6 or 7 months period after the finalisation and closure of accounts. For example, in the year 1971-72 the surplus remaining for transfer was Rs. 10,540. In 1973-74 it was Rs. 8908.50. In 1974-75 it was Rs. 4.5 lakhs and the amount so far distributed out of this Rs. 14.06 crores is Rs. 13,52,59,223".

2.5 In a further note on the subject, the Ministry of Commerce have stated:

"Out of the balance of Rs. 6.85 crores (at the end of October 1980) relating to the period upto end of 1976-77 seasons' accounts, further payments to the extent of Rs. 5.98 crores have been made to growers leaving balance of Rs. 87 lakhs in respect of seasons upto 1976/77. Out of this, Rs. 4.57 lakhs relating to seasons upto 1973-74 has since been transferred to General Fund (in 1979-80 account). As of now,

the amount outstanding relates to 1975-76 and 1976-77 (Rs. 81.63 lakhs). The balances are being reviewed and after payments due to growers are fully made, the remaining amount will be transferred to General Fund by 31-12-1982.

The amount shown as excess of income over expenditure in the accounts of any seasons actually represents the amounts which are due to be distributed to the growers. A period of 4 years was generally required for according of disbursals and exhibition in the relevant year's accounts and for transfer of undistributed balance. In future, this period is expected to be reduced with the shortening of the pool account period to 12 months".

2.6 In reply to a question how the surplus arose and why it was not distributed to growers, the Ministry of Commerce have stated:

"As already stated, the amount shown as excess of income over expenditure is not really a surplus, but it is an amount arrived at on the closure of accounts as yet to be distributed to the growers who had pooled coffee during the particular season. Small amounts which are not practically susceptible of being distributed on point basis and amounts distributable but not claimed for a long time by the growers are alone to be considered for transfer to the General Fund under proviso to Section 32 of the Coffee Act".

2.7 To a question whether the Board paid interest to the growers on this amount, the witness replied in the negative and added:

"More than 90 per cent of the payment is made. Only the balance of 5 to 10 per cent of the amount will have to remain till the accounts are audited because the estimated stage will have to reach the confirmation stage. How payment is made to the grower is that at the point of delivery we pay about 50 per cent of the estimated price of the commodity. Subsequently once in every two months the amount is transferred to the growers by way of instalment payment and we pay to the growers about 6 to 7 times in a period of 12 months. According to a decision taken, the final payment is deferred till the finalisation and auditing of the accounts. Therefore, these amounts which are exhibited under 'Surplus', are actually amounts that are distributable to the growers and we will come to know about the final amount remaining transferable to the growers after satisfying all the conditions mentioned in the Act for the utilisation of this Fund, in a period of three years for purposes of exhibition in the accounts.

That is how the amounts are apparently appearing as surplus which are not really surpluses transferable to the General Fund".

2.8 Asked to state the reasons for not paying interest to the growers, the witness explained:

"It is not as if growers' money is retained with the Coffee Board long after the closure of the period for which the accounts relate. For example, for the year 1976-77, the accounting period is 1st January 1976 to 30th September 1977—a period of 21 months. The accounts are closed in September 1978, that is, they have taken 12 months. I am conceding straightaway that a period of 12 months is far too long for the closure of accounts of the Coffee Board. That is a separate matter on which we have already taken some steps. After the closure of accounts in September 1978, immediately in the next few days the final payments which represent anything between 5 to 10 per cent are declared. These disbursements also take place within the next two to three months. But since the next year's accounts also are closed by that time, it enters Coffee Board's second succeeding account. That is why it is reflected in two years after the payments are made. One thing I would like to clarify is that the growers' amounts are not unduly kept for long."

2.9 Asked whether the balance amount left with the Coffee Board after making initial payments to the growers was deposited in the Bank and if so, how much interest was usually earned on those deposits, the witness stated:

"After payments to the growers, if some amounts are available, we keep the whole amount in a bank in deposit for a month or so, but that interest goes to the growers."

He added:

"What amount is to be kept in deposit with the bank is decided with reference to the availability of funds on the cash side of the bann. The amount that is declared for payment to the growers, after calculation gets paid during the course of time."

The Director of Finance, Coffee Board, explained:

"We maintain two types of accounts. One is cash credit (or current account which covers the transactions involving payments to the growers. The other account is Packing Credit

Account which we maintain in respect of our exports. Whenever an export contract is entered into, we get finances at lower rate of interest under Packing Credit Account. These two accounts are maintained in the State Bank of India."

2.10 To a question why the Coffee Board does not maintain Savings Bank Account for this purpose and earn interest thereon, the witness replied:

"Moneys are not kept in the bank continuously because the payments are being made continously. Normally the bank balance would be hardly Rs. 50 lakhs or Rs. 60 lakhs or 1 crore. Whenever there is an accumulation even of the order of Rs. 7 to 8 crores, immediately we consider declaring a payment to the growers. Therefore, the amount gets distributed."

The Chairman, Coffee Board further clarified:

"During the course of the transactions in a year, as and when we go on selling coffee, if an accumulation is there to the extent of being sufficient for declaration of an instalment for payment to the growers—for example, we declare payment on the basis of points, we say Re. 1/- per point and it works out to Rs. 15 crores—and when the Rs. 15 crores accumulation is found in the bank, we pay to the growers. When we find that, after paying the growers an instalment, some amount is remaining, we credit these amounts, once in a way into the deposits of bank and earn interest. That interest earned by deposits made by the Board in the various banks, after payment to growers is made, goes to the Pool Fund and is payable back to the growers. But it is not as if this amount of Rs. 15 crores which is declared as a payment, that amount is remaining in the bank account as a lumpsum cash amount. But, at a particular point of time, we may have a few lakhs of rupees but not several crores because we operate an overdraft account with the State Bank of India."

2.11 In a subsequent note, the Ministry of Commerce have stated:

"The excess of income over expenditure appearing in the Pool Fund accounts is only an "account balance" and does not necessarily represent cash balance of equal magnitude. To illustrate, the following statement indicates the actual cash balance as well as the excess of income over expenditure on the last dates of the Pool Seasons 1976-77 to 1978-79. The cash balances are carried forward from one season to another

and are continuously utilised to make payments to growers and to meet other liabilities.

	Period ending on	Excess of Income over expenditure	Balance with Bank
		Rs. P.	Rs. P.
1976-77 . .	31-10-78	14,05,85,080·88	84,60,663·43
1977-78 .	30-9-79	12,62,43,769·48	100,56,169·68
1978-79 . .	31-10-80	16,87,62,323·91	153,86,211·68

The amounts belonging to the Pool Fund are kept in current account with the State Bank of India, Bangalore with whom the Board has arrangement for overdrafts. As a result, the balance in the bank could be either a credit balance or debit balance. On an average, a payment is made to growers every third month (*i.e.* payments are made once in two months). During the period between two payments the cash, if available, is kept in short term deposits with the banks approved by the Government for the purpose, so that the cash is not kept idle and that growers get the benefit out of such deposits by way of interest."

2.12 The amounts of interest earned on the short term deposits during the 1977-78, 1978-79 and 1979-80 seasons are as under:—

1977-78 season .	. Rs. 7,16,017·15
1978-79 season .	. . Rs. 13,95,948·21
1979-80 season .	. Rs. 3,34,792·49

2.13 At the instance of the Committee, the Ministry of Commerce have also furnished in respect of the years 1977-78 and 1978-79 a statement showing the period of deposit, date of encashment and date of payment to the growers. It is noted from this statement that during the period September, 1978 to November, 1981 the amounts so deposited in the Bank ranged between Rs. 10,01,700 (21-7-1981) and Rs. 15,60,00,000 (11-12-1980) while the number of days for which the money remained deposited ranged between 15 days and 71 days except on two occasions when it went up to 107 days. In a majority of cases however, the amount was deposited for 15 days only—the interest on such deposits being 2½ per cent while in other cases it was 3 per cent.

2.14 The Ministry of Commerce have further stated:

"The deposits have been kept in the Banks approved for that purpose by the Government. The interest earned on short

term deposits gets merged in the general cash balance of the pool fund and is distributed to growers through declarations of payments, which are made every third month....For example, during 1977-78 season represented by Pool Fund Account No. 34, the interest of Rs. 7,16,017.15 earned was part of the total income of Rs. 194,30,05.717 as shown in the Income and Expenditure account for the season. After deducting the Pool expenses and the taxes and duties for the season the balance amount including the interest above has been declared for payment/disbursement to the growers."

2.15 The Audit para has pointed out that surpluses in the Pool Fund after making payments to the growers and meeting expenses on storage, curring, transport, marketing etc. are required to be transferred to the General Fund with the previous sanction of Government. As on 31 October, 1978 the accumulated surplus in the Pool Fund Account amounted to Rs. 16.16 crores. The Committee have been informed that this figure represents amounts awaiting distribution amongst the growers in respect of coffee pooled by them but not yet claimed by them and that such balances were allowed to be carried forward for three to four years from the date of becoming due. The outstandings had been reduced to Rs. 81.63 lakhs relating to 1975-76 and 1976-77 Coffee seasons. The Ministry had assured the Committee that the balances were being reviewed and after making payments to growers fully, the remaining amounts were expected to be transferred to General Fund by 31 December, 1982.

2.16 The Committee are concerned to note that an inordinately long time is taken in the process of accounting of disbursals and exhibition in the relevant years' accounts and making final payments to the growers. In a later section of this Report, the Committee have emphasised the need for stremlining the accounting system with a view to reducing the timelag in the finalisation of the accounts and their submission to Audit. This is important since a large majority of the growers are small peasants who look to the Board for quick payment of their dues. The Committee are emphatic that consequent to the decision to shorten the accounting period to 12 months all endeavour would be made to make payments to the growers expeditiously. The Committee consider that normally final payment to a grower should not be delayed beyond 18 months for produce pooled in any one coffee season or beyond six months of closing the accounts.

2.17 The Committee find that the Pool Fund moneys are kept by the Board in Current Account with the State Bank of India, Bangalore with whom the Board has arrangement for overdrafts. On an average, payment is made to growers once in two months. During the period between two payments the cash if available is kept in short term deposits with the Banks

approved by the Government for the purpose. The interest earned on such short term deposits getst merged in the general cash balance in the Pool Fund and is distributed to the growers through periodical declarations of payments.

2.18 From the information supplied to them, the Committee find that during the period September, 1978 to November, 1981, the amounts so deposited in bank ranged between Rs. 10.01 lakhs (21 July, 1981) to Rs. 1560.00 lakhs (11 December, 1980) while the number of days for which the money remained deposited ranged between 15 and 71 except on two occasions when the money was kept for 107 days. Most of the deposits were, however, for 15 days only and the interest earned thereon was 2-1/2 per cent. The Committee consider that it would be useful to evolve a system whereby payments are made to the growers on a fixed date, say, first week of the third month so that more interest could be earned on bank deposits for the benefit of the growers. The Board should also examine the feasibility of depositing the moneys in Savings Bank Account instead of keeping them as short term deposits in Current Account.

(b) *Delay in finalisation of accounts*

2.19 For coffee collected in the surplus pool in each season, a separate account is kept until all coffee collected in the surplus pool for that season is disposed of and as a result, each pool account is spread over a period longer than one year, it being nearly 3 years for the season 1961-62. Later, on the recommendation of the Public Accounts Committee [Please see 41st Report (Third Lok Sabha)] to reduce the time lag, Government decided that each pool would run for a period of 21 months from 1st October, each year and that the accounts would be made available for audit within the next 3 months. However, according to Audit, not only the time schedule had not been adhered to in practice but the time taken to complete the accounts ranged between 8 months to 13 months during the pool fund years 1974-75 to 1977-78. The Audit para further points out that the Board had since decided (February 1980) that effective from 1980 the pool account from each season would be commenced on 1st January and closed on 31st December and that the accounts would be made available to Audit within 3 months thereafter *viz.* by 31st March.

2.20 Explaining the position in this regard, the Chairman, Coffee Board stated in evidence:

> "As regards delay in accounts, earnest efforts were made to reduce the delays. As far as the accounting is concerned, except in one year, where we had taken one month more, the period was observed and subsequently the period has been further reduced. We are now in a position that by April, 1982

we would have completed all the arrears on hand, and from them onwards we are working to ensure that there shall not be any delay with regard to accounts."

2.21 On his attention being drawn to fact that the Public Accounts Committee had as far back as in 1965, suggested a review of the accounting system so as to reduce the time lag of three years in presenting the accounts of the Pool Fund, the witness deposed:

"We have been consistently reducing the period. Unfortunately, the pool fund account runs into 18 months, and then we require time for finalisation of the accounts. We are restricting ourselves to the 21 months period in almost all cases except in one year where we exceeded by a month."

2.22 The Committee were informed (September 1981) that the pool fund accounts have been finalised only to the end of 1977-78 season. Asked what action had been taken for finalising the accounts of the pool fund for the subsequent coffee seasons (from 1978-79) on the due dates, the Ministry of Commerce, have stated:

"For the season 1973-74 the extent of delay in compiling the Pool Fund Account was about 9 months. Thereafter the delay has remained more or less at 8 months excepting in respect of 1976-77 season when the delay came down to 6 months. The delays in compiling the accounts which have remained more or less constant have to be viewed in the background of increase in production from season to season.

Even though production has increased which has in turn resulted in the increased number of transactions, the delay in compiling the accounts has not worsened. It is, however, expected that the various measures taken by the Board over the last 2 years would bear result now and that in respect of 1978-79 season the delay might be curtailed by about 20 to 25 per cent. Thus delay would be progressively reduced in about 2 or 3 seasons to come.

The action taken by the Board in reducing the ultimately in eliminating the delays in compiling the accounts are as below:

1. Altering, where necessary, the old procedures and/or installing new internal procedures to speed up the receipt of accounting information;
2. Changing and improving the accounting forms;
3. Altering the accounting methods to meet with the needs of increasing volume of transactions;

4. Changing the accounting year from 22 months to 12 months as an experimental measure;

5. Starting preliminary work on the feasibility of computerisation of accounting;

6. Establishing facilities for training of staff and supervisors.

It is hoped that these steps would, surely but gradually, bring about improvement in the speedy compilation of accounts in future.

It may be noted in this connection that though there have been delays in compiling Pool Fund accounts over the years, at no time the payment to the growers at appropriate and regular intervals has been hampered."

2.23 During evidence, the Committee posed the question whether the case of the Coffee Board was that if the production goes up, it would be difficult to finalise the accounts and if so, what ways and means have been devised to reduce the time lag. The Chairman, have been devised to reduce the time lag. The Chairman, Coffee Board stated:

> "We are trying to implement that decision. Incidentally, we are trying to close the accounts within a period of 12 months, the ceason for the disposal continues beyond 12 months. The growers of the particular season may be different from the growers of the subsequent year. We are trying to restrict the quantum of disposal beyond 12 months to the minimum, so that during the subsequent three months, by the time we finalise the accounts, their quantities will have been sold out. We have now reached a fairly good stage of completing our accounts without any arrears in future; by April we will have cleared all the arrears on hand we would have started a new experiment to close the accounts in time."

2.24 On his attention being drawn to the recommendation made by the Public Accounts Committee in para 2.35 of the 41st Report (3rd Lok Sabha) to the effect that the Ministry of Commerce should in consultation with the C&AG review the present method of accounting with a view to reduce the time lag in presenting the account of the Pool Fund, the Commerce Secretary stated:

> "Surely, it should not have taken so much time and we should have devised some method or procedure to achieve this. The factual position is that Government had decided that each pool fund would run for a period of 21 months from 1st October each year and the accounts will be made available for audit within the next 3 months. The character of this

particular crop is such that it takes about 18 months to complete the processing and marketing and it is only when the curing, processing and marketing is over that they take up the closing of the accounts and furnish it to Audit. The coffee growers start bringing coffee and hand it over starting from October. It is handed over in cured or uncured form and the payments are made from time to time as and when marketed. It takes about 18 months in the processing, curing and marketing. It is after that they start finalising the accounting processes which takes one year. We have been trying to see how to reduce these two periods *i.e.* the period of the account and the time taken for closing the accounts. Government is of the view that perhaps both these periods could be abridged. The Coffee Board is trying to abridge the period by changing over to a 12 month accounting period as an experimental measure but the basic question, of course, remains as to why we took 16 years."

He added:

"From 1979-80 onwards we are trying to see that we abridge it and bring it to 12 months plus 3 months for finalisation of the accounts."

2.25 Since the accounting year was stated to have been changed from 22 months to 12 months as an experimental measure, the Committee enquired to what extent it had helped in reducing the delays. The Chairman, Coffee Board stated:

"It has reduced delays because, as I submitted we have finalised 1979-80 accounts, they are ready for submission. We hope that there will not be any delay in future. Even if there is delay, it will not be more than a month. We call it as an experimentation because we do not know how this will be reacted to by the growers. We will study in consultation with the C&AG also. The other day I personally requested him to help us in the implementation of this 12 month period."

2.26 In reply to a further question the Chairman, Coffee Board informed the Committee that the accounts for General Fund for the year 1980-81 and for the year 1977-78 in respect of the Pool Fund, had been submitted to Parliament.

2.27 Asked about the position regarding Pool Fund Accounts for the year 1978-79, the Ministry of Commerce have stated:

> "The Pool Fund Accounts for 1978|79 season were closed and sent to Audit on 30-9-81. The accounts of 1979|80 season are expected to be closed in a few days.

The reasons for the accounts being in arrears are as below:

(i) Consequent on substantial increase in coffee production the number of transactions has been increasing steeply year after year.

(ii) The Pool Fund Accounts have a special feature that they cover a period of more than 12 months. Thus during the same period two account periods overlap which results in a large number of misclassifications during the final compilation of accounts requiring time-consuming examination and reconciliation.

(iii) The accounting methods and techniques were not adequate to meet the challenges of increasing work-load due to increased production and sales."

2.28 As regards the action taken on the recommendation contained in para 2.35 of the 41st Report of the Public Accounts Committee (3rd Lok Sabha), the Ministry have in a note stated as follows:

> "No consultation seems to have taken place with the Comptroller and Auditor General of the Accountant General, Karnataka for reviewing the accounts system as such. However, in February, 1967 (Coffee Board's letter AC.IV|Comp| 4 dated 17-2-1967 to the Accountant General) it was reported that Pool Fund Account for each season on the 30th June of the second subsequent year and the final accounts of the season furnished to Audit by 15th September. Upto 1964-65 season the accounts used to be opened on 1st July of every year and used to run for 30 months. For season 1965|66, while the accounts were opened on 1st July, 1965, the period was reduced to 24 months (ended on 30-6-1967); the accounts were finalised in October 1967. For 1966|67 season, in pusuance of the decision taken in February 1967, referred to above, the Pool Fund Account commenced on 1-10-1966 and ran for a period of 21 months.
>
> In October 1967 (*vide* AC.IV/400 dated 10-10-1967) Audit was informed that in order to further reduce the period of the account the accounting season would start from 1st January, instead of from 1st October and would be closed on the 30th June of the following year (18 months). Pursuant to this decision, the accounts

for the seasons 1967-68, 1968-69 and 1969-70 were opened on 1-1-1968, 1-1-1969 and 1-1-1970 respectively and were closed on 30-6-1969, 30-6-1970 and 30-6-1971 maintaining the period of accounts at 18 months.

From 1970-71, however, owing to increased production and quantity handled by the pool, the ammounts had to be kept open for periods longer than 18 months, vide statement enclosed. From 1979-80, the period of the account has been reduced as an experimental measure, to 12 months starting from 1st January and ending on 31st December. A statement showing the actual dates of commencement and completion of the accounts and months in which accounts were finalised and made available to Audit is enclosed."

Statement showing the dates of Commencement and completion of Accounts and Month in which the Accounts were finalised and made available to audit

Pool Fund Year	Actual period of commencement and completion	When accounts were handed over to Audit
1970-71	1-1-71 to 31-12-72 (24 months)	April 73
1971-72	1-1-72 to 30-9-73 (21 months)	March 74
1972-73	1-1-73 to 30-9-74 (21 months)	July 75
1973-74	1-1-74 to 30-6-75 (18 months)	July 76
1974-75	1-1-75 to 31-7-76 (19 months)	September 1977
1975-76	1-1-76 to 30-9-77 (21 months)	September 78
1976-77	1-1-77 to 31-10-78 (22 months)	July 79
1977-78	1-1-78 to 30-9-79 (21 months)	October 80
1978-79	1-1-79 to 31-10-80 (22 months)	September 81
1979-80	1-1-80 to 31-12-80 (12 months)	Expected to be closed shortly
1980-81	1-1-81 to 31-12-81 (12 months)	Expected to be closed by April 1982.

2.29 The United Planters' Association of Southern India have in their Memorandum to the Committee pointed out *inter alia*:

"We must, by way of a pre-check on expenditure, underline the need for a proper budgeting of the Pool expenses as, according to information available with us, annual budgeting is now done only in regard to the administration of the Pool Fund, which forms barely 4 per cent of the total Pool expenditure. We may also suggest the desirability of reintroducing a practice in

vogue until the 1971-82 season which incorporated the Income & Expenditure Statement and the Balance Sheet of the Pool Fund in the Board's Annual Report."

2.30 The Wyned Coffee Growers Association in their Memorandum to the Committee have also observed:*

"The pool fund, which had turn over of around Rs. 400 crores during the Brazilian frost periods of 1976-77 and presently having an annual inflow of over Rs. 200 crores is quite surprisingly not subject to annual budget. Of course, yearly budgeting is done, with regard to the administration of Pool Fund, which forms only around 4 per cent of the total pool expenditure. The other main components of the pool fund, apart rom duty of excise, interest on O.D., insurance etc. are FOB charges which form a staggering 74 per cent to 87 per cent of the total expenditure and cost of storing and marketing contributing 9 per cent to 11 per cent of the total cost. These major components are not placed for budgeting and the members of the Board are not in a position to exercise any control over this expenditure."

2.31 The Committee pointed out during evidence that while the accounts of General Fund were maintained under Rule 34(1) and (2) of the Coffee Board Rules and submitted to the Central Government along with the Auditor's Report thereon, the Pool Fund Accounts and the audit Report thereon together with explanatory notes were submitted to the Board for approval and that there was no statutory duty to place them also before Parliament. The Chairman, Coffee Board replied that this was done as a matter of convention.

2.32 From the information furnished, the Committee find that the time taken for completion of the Pool Fund Accounts during the pool fund years 1970-71 to 1978-79 has ranged between 18 to 24 months. The further time taken for submitting the accounts to audit was between 9 to 14 months in seven out of these nine years. Thus, the entire process took inordinately long time. Since 1979-80, the Coffee Board has, as an experimental measure, reduced the period of closing the accounts to 12 months starting from 1 January and ending on 31 December.

2.33 As early as in October 1965, the Public Accounts Committee had, in para 2.35 of their 41st Report (Third Lok Sabha), drawn attention of the Ministry to the need for reducing the time lag in presenting the accounts of the Pool Fund in consultation with the C&AG. The Committee are distressed to find that no

*Not vetted in Audit.

such consultation has taken place during the last 16 years and that no timely effort has been made to reduce the huge time lag. It is only after receipt of the present audit report that the Board appears to have taken certain steps for reducing/eliminating the delays in compiling the accounts viz. altering, where necessary, the old procedures and /or installing new internal procedures to speed up the receipt of accounting information, changing and improving the accounting forms; reducing the accounting period to 12 months as an experimental measure starting preliminary work on improvement of accounting system and establishing facilities for training of staff and supervisors etc.

2.34. The Committee consider it imperative that the accounting methods are streamlined to enable the Coffee Board to handle the increasing volume of transactions and timely submission of Accounts to Audit and audited accounts to Parliament. The Committee would, therefore, urge that the above stated steps designed to make for speedy compilation of accounts and audit thereof, are pursued vigorously in consultation with the C&AG. The Committee would watch with interest the results of these efforts which should get reflected in the finalisation of future accounts. The Committee would like to emphasise that the accounts should be invariably closed within six months of the close of coffee reasons for submission to Audit.

2.35. In this connection, the Committee would also like to point out that while the accounts of the General Fund are required to be submitted to the Central Government along with the Auditor's Report thereon, the Pool Fund Accounts and Audit Report thereon are submitted to the Coffee Board for approval and that these are placed before Parliament only as a matter of convention. The Committee are of the view that this practice should continue and in due course the Coffee Act should be amended suitably so as to cast a statutory duty on the Coffee Board to place these accounts before Parliament in the interest of accountability.

2.36. In this connection the Committee would further like to draw attention to the need for proper budgeting of the Pool expenses. As pointed out by the United Planters' Association of Southern India, annual budgeting is done only in regard to the administration of the Pool Fund which forms barely 4 per cent of the total Pool expenditure. As further pointed out by the Association, the feasibility of reintroducing the practice in vegue until 1971-72 season of incorporating the Income & Expenditure Statement and the Balance Sheet of the Pool Fund in the Board's Annual Report should be examined to ensure proper control over the Pool Fund expenditure. The Committee need hardly underline the desirability of exercising greater vigilance in the scrutiny and control over the Pool Fund expenditure which is stated to have an annual inflow of about Rs. 200 crores. The Committee, therefore, urge that the entire budget of the pool Fund should be got approved by the Coffee Board.

CHAPTER III

LONG TERM STRATEGY OF COFFEE PRODUCTION

(a) *Coffee Production*

3.1 In a note regarding the increase in Coffee production achieved during the decade 1971-72 to 1980-81 and the effect of seasonal variations on coffee produtcion, the Ministry have stated:

> "Coffee being a perennial crop, the size of production is largely conditioned by seasonal vagaries. Therefore, it could be seen that the crop of 1978-79 is slightly less than compared to the previous year. However, it could also be seen that the crop of 1979-80 is the highest on record. Coffee production is subject to cyclic variation. Coffee produtcion during the current decade—from 1971-72 to 1980-81 is given below:

(*In tonnes*)

Season	Arabica	Robusta	Total
1971-72	44030	24918	68948
1972-73	61853	29219	91072
1973-74	44066	42322	86388
1974-75	62646	29860	92506
1975-76	49635	34347	83982
1976-77	64944	37304	102248
1977-78	58896	66245	125141
1978-79	65100	45400	110500
1979-80	71060	78173	149233
1980-81	59911	55235	115146"

(b) *Yield per hectare*

Overall average yield per hectare of coffee in India for 1971-72 to 1978-79 seasons based on planted area (in kg. per hectare) as given in the "Coffee Statistics—1978-79" issued by the Coffee Board, was as under:

Sl. No.	Season	Arabica	Rubusta	Total
1.	1971-72	531·75	447·78	498·00
2.	1972-73	702·95	497·01	620·47
3.	1973-74	488·47	646·04	554·76
4.	1974-75	688·00	458·80	592·46
5.	1975-76	507·03	466·41	489·59
6.	1976--77	645·75	424·51	542·58
7.	1977-78*	568·95	744·67	650·20
8.	1978-79*	629·90	510·69	574·78

3.2 The Committee desired to know the productivity per hectare in India *vis-a-vis* some of the leading Coffee producing countries, such as Brazil, Columbia, etc. The Ministry of Commerce have furnished the following information in this regard:

"The world average yield per hectare is 472, 497 and 521 Kgs. for the years 1977, 1978 and 179 respectively, while Indias yield per hectare is 543, 658 and 553 Kgs. on the basis of planted area.

In respect of the following seven countries of the world producing coffee over 1,00,000 tonnes the yield in Kgs. per hectare is as follows:

Countries Producing Over 1,00,000 *in tonnes*

	country	1969-71	1977	1978	1979
1.	Elsalvador (NCA)	1122 I	968 I	894 I	1000 I
2.	Gautemala (NCA)	544 IV	598 II	690 III	680 II
3.	Mexiso (NCA)	536 V	467 VII	550 VI	661 III
4.	Brazil (South-America)	487 VI	502 VI	593 IV	581 VI
5.	Columbia (South America)	591 III	571 III	608 IV	651 IV
6.	India (Asia)	621 II	543 IV	658 II	533 VII
7.	Indonesia (Asia)	455 VII	535 V	593 V	536 V"

*Provisional and subject tc revision.

3.3 The Audit para has pointed out that the overall productivity of coffee per hectare of land under cultivation, had not increased over the years—the figures for each nf the seasons— 1973-74 to 1978-79 being 600, 600, 600, 60,00|611, 710 and 602 kgs. per hectare respectively. The Committee desired to know the reasons for the average productivity of coffee stagnating at around 600 kg per hectare. In a note, the Ministry of Commerce have stated:

> "The figure of 600 kg. yield per hectare adopted by Audit is based on the figures indicated in the Circular issued in August, 1979 by the United States Department of Agriculture. If yield per hectare is arrived at on the basis of bearing area instead of on the basis of planted area, yeild figures would be:

Year	Planted area (in Ha.)	Yielding area or bearing area (in ha).	Production of coffee	Yield Kgs. per ha.)
1971-72	138064	126000	68948	555·14
1972-73	146375	130200	91072	700·00
1973-74	155722	132200	86388	653·46
1974-75	156138	134400	92506	688·29
1975-76	171535	137830	83982	609·32
1976-77	188437	143648	102248	711·80
1977-78	192248	148990	125141	840·06
1978-79	201040	156560	110500	705·80
1979-80	205040	168562	149233	885·32

The average productivity of the country per hectare of bearing area for a period of 9 years—from 1971-72 to 1979-80 works out to 706 Kgs./ha. Productivity has increased from 555.14 kgs./ha. in 1971-72 to 885.32 kgs./ha. in 1979-80"

3.4 Enumerating the factors contributing to the sudden spurt in productivity from 609.32 kg. per hectare in 1975-76 to 710 kg per hectare in 1976-77 and 840.06 kg. per hectare in 1977-78 the Ministry have stated:

> "Based on the bearing area, the country's productivity stood at 711.80 kg. per hectare (1976-77) and during subsequent years, it rose to 840.06 kgs. 705.80 kgs. and 885, kgs. per

hectare. The reasons for the increase could be attributed to the following:

(i) Comparatively increased and attractive returns to growers which enabled them to plough back part of these higher returns into better/intensive cultivation.

(ii) Improved and prompt research and extension support whenever it was needed.

(iii) Higher liberalised and prompt credit facilities, particularly to Small Growers."

3.5 During evidence, the Committee enquired about the inter-national practice of arriving at the productivity of coffee per hectare. The Chairman, Coffee Board stated:

"Normally the international practice is to relate productivity to the harvested area."

3.6 On his attention being drawn to the variation in productivity figures mentioned in the audit report and those given in the Coffee Statistics, 1978-79'—a publication of the Coffee Board, the witness clarified:

"I happened to see some of the documents published by the United States Statistical Authority and also the food and agricultural authority. They were collecting statistics from most of the Latin America and other countries. But some of the developing countries have been furnishing only planted area figures. Therefore, they used to write underneath where the statistics are published that the yields are calculated on the basis of the planted area where the developing countries deliberately wanted the international authority to take bearing areas. This information is collected from those authorities and is not voluntarily furnished by us."

He further explained:

"They have got local officers in all the countries. In Bangalore, people from the local mission from the USA come and collect information from our offices as well as the Government Statistical Department. There is no formal exchange of communication of these statistics between those organisations and ourselves. *In any case, till recently the information relating to yields is based on planted area and not bearing area.* It is agreed on all sides that our production figures are figures of actual market figures, a quantity which is actually marketed. If the production over the last 8—10 years is showing a distinct increase in production that production is not coming from the sky."

In reply to a further question, the witness stated:

"We ourselves were publishing the yields till recently based on the planted area. We have since changed the procedure officially that the yields shall be calculated on the basis of the bearing area which is the practice adopted by the international statistics. The second point raised is that the international agencies are publishing the yield statements largely from the planted area, not based on the bearing area. The third point I submit is that the bearing areas are derived over a period of time,.....In respect of a particular year, the difference between the planted area of that year and the previous year is treated as the area planted during that year which can be classified as one year old for that year. Similarly, the difference in planted area of succeeding year will be treated two year old, three year old, etc. Providing for the gestation period of 4 years for Arabica and 5 years for Robusta, the bearing area for various years based on the increase in the planted areas as explained above are delivered."

3.7 In a further note on the subject, the Ministry of Commerce have stated:

"Generally, for the purpose of determining the productivity of coffee the various coffee producing countries adopt the harvested area as the basis taking into account the gestation periods involved for the plant to reach the bearing stage.

In India the productivity has been determined all along on the basis of the planted area. This method of arriving at the yield per hectare suffers from the obvious infirmity of taking all the planted area under coffee as yielding area even though the normal gestation period of coffee plants is 4 years in case of Arabica and 5 years in case of Robusta. Moreover area under coffee in India has undergone substantial expansion in the last decade. It may be pointed out that while the coffee area has expanded by 44 per cent over a 9 year period from 1971-72, the production over the same period has increased by 117 per cent. This is indicative of the increase in productivity which will be revealed only when the yield per hectare is worked out on the basis of bearing areas. The correct method of arriving at yield per hectare will be to elimihate the non-bearing areas in recokoning productivity. Coffee Board has since decided to adopt the more realistic method of determining the yields based on bearing areas in conformity with the international practice.

The coffee area shown in FAO's production year book (1979) for India is actually the planted area and not the harvested area. There is an explanatory note in the FAO Year book (1979) which states "Figures for crop areas generally refer to harvested areas, although for permanent crops, data may refer to total planted area..... Data on yields of permanent crops are not as realistic as those for temporary crops, either because most of the area information may relate to planted area, as for grapes, or because of the scarcity and unreliability of the area figures reported by the countries, as for example Cocoa and Coffee."

3.8 Asked whether the planted area or the bearing area was the criterion for ascertaining productivity per hectare in the case of tea and cardamom, the Ministry have stated:

"The international practice for calculating productivity per hectare in the case of tea plantation is to reckon on the basis of bearing area, as reflected in the FAO Production Year Book and Bulletin of statistics brought out by the International Tea Committee. However, "Tea Statistics", the publication brought out by the Tea Board annually presents productivity with reference to planted area.

Cardamom Board has confirmed that productivity of cardamom plantation is worked out with reference to bearing area."

3.9. India is among the top seven coffee producing countries in the world. The production of coffee during the decade 1971-72 to 1980-81 has gone up from 68,948 tonnes to over 1.15 lakhs tonnes. During the year 1979-80, the production reached a peak of over 1.49 lakh tonnes which is stated to be the highest on record in the country. The average productivity per hectare of bearing area is stated to have increased from 555.14 kilograms in 1971-72 to 885.32 kilograms in 1979-80.

3.10. In terms of planted area, the productivity is stated to have increased from 498 kilograms per hectare in 1971-72 to 574.78 kilograms in 1978-79. The data for the coffee seasons 1973-74 in 1978-79 given in the Audit Report however, indicate that the production has stagnated at around 600 kilograms per hectare of planted area, except during 1977-78 when the production shot up to 710 kilograms per hectare. The Committee have been informed that the data adopted by Audit was based on the figures indicated in a circular issued in August, 1979 by the U.S. Department of Agriculture who in turn were stated to have collected the same from their own sources in our country. The Committee consider it unfortunate that no attempt was made by the Ministry to correct the discrepancy till the matter came under examination of the Committee.

3.11 The Committee find that till recently the productivity in India was determined on the basis of the planted area rather than the harvested area as per international practice. The data for India shown in the FAO's Production Year Book (1979) is also stated to be on the basis of the planted area and not the harvested area.

3.12 The Committee find that in respect of such other commodities as tea and cardamom also, the international practice is to reckon productivity on the basis of bearing area. However, 'Tea Statistics' brought out by the Tea Board annually continues to present productivity with reference to planted area. The Committee consider that such anomalies in the presentation of data which are published by the FAO and other international agencies need to be rectified immediately. The Committee would like Government to issue necessary instructions in the matter without loss of time.

(b) *Holding pattern of Coffee-estates*

3·13 The following table shows the holding pattern (in terms of acreage) of registered coffee-estates as on 31-3-1979:—

Sl. No.	States	Less than 2 ha.	2 ha less than 4 ha.	4 ha. less than 10 ha.	10 ha. less than 20 ha.	20 ha. less than 40 ha.	40 ha. less than 60 ha.	60 ha. less than 80 ha.	80 ha. less than 100 ha.	100 ha. and above	Total no. of Estates Registered as on 31-3-79
1	2	3	4	5	6	7	8	9	10	11	12
I.	Karnataka . .	16707	4456	3149	864	325	140	75	43	119	25878
II.	Tamilnadu .	7681	1059	646	127	50	37	20	9	28	9657
III.	Andhra Pradesh .	328	6	..	..	1	2	2	2	6	347
IV.	Kerala . . .	31440	2386	564	106	50	27	14	9	15	34611
V.	Maharashtra . . .	1		..		1	..	..	..	..	2
VI.	Orissa	..		..		..	..		..	1	1
VII.	Assam	..	..	1		1	3		1	4	10
VIII.	Mizoram	..	..			..					..
IX.	Madhya Pradesh . .	..		..				..			
X.	Andaman & Nicobar Islands.	2	..	1	..	..	..	..	..	..	3
	Grand Total . . .	56159	7907	4361	1097	428	209	111	64	173	70509

3.14 The Committee desired to know the number of coffee plantations with an area of 5 acres and less (State-wise), the area under coffee plantation falling in this category and its proportion to the total area under coffee plantation. The information furnished by the Ministry of Commerce is appended below:

"A statement indicating the details required in respect of Registered estates on the basis of the statistics for the year 1978/79 is furnished below:

Sl. No.	Name of the State	Number of holdings below 2 ha	Total planted area (in ha) of below 2 ha	% of area to total planted area of below 2 ha
1.	Karnataka	16707	11720	28
2.	Tamilnadu	7681	4989	12
3.	Kerala	31440	25129	60
4.	Andhra Pradesh	328	197	—
5.	Others	4	4	—
	Total of below 2 ha.	56159	42039	100

Definition of an economic holding

3.15 Asked to define an economic holding, the Ministry have stated:

"Production of coffee is a function of physical and natural factors such as plant material, age of coffee plants, level of cultivation, application of inputs, timely and adequate rainfall, elevation, soil fertility.

Such physical factors like selection of plant material, level of cultivation and the quantity of inputs are greatly influenced by the financial returns obtained for their produce. Yet, the fluctuations of production from year to year are also due to the inherent biennial bearing tendency of coffee plants which causes high-low production pattern in the alternating years.

An economic holding of coffee may therefore perhaps be defined as a function of productivity, price and the family size which would determine the need based income level.

In view of the several variable and interacting factors stated above, it has been found difficult to precisely define an economic holding."

3.16 The Committee enquired about the number of coffee estates considered to be uneconomic and the efforts made to improve the viability of such estates. The Ministry have stated:

> "In view of the fact that an economic holding has not been precisely defined, the number of holdings which are uneconomic is also not determined.
>
> Over 90 per cent of the holdings in India are small with limited financial resources on account of low productivity and are unable to make adequate investments on intensive levels of cultivation.
>
> Efforts have been made by the Coffee Board to increase production particularly in low productivity areas of the traditional coffee growing States through enlarged credit facilities provided to the small coffee farming sector by the Coffee Board and through the financial institutions. An element of subsidy both for replanting and expansion has been provided at Rs. 2,500/- per hectare to improve their economy. Besides, supporting research and extension programmes have also been stepped up."

3.17 In reply to a question regarding the share of small growers in the total production during 1978-79, the Chairman, Coffee Board stated in evidence that out of 1.10 lakh tonnes the share of the small growers was 65,525 tonnes (59 per cent) and that of the large holdings was 44,963 tonnes (41 per cent). Asked to reconcile these figures with those given in a written reply *Viz* 57558 tonnes by small growers (52 per cent) and 52475 tonnes by large growers (48 per cent) the witness deposed:

> "Both are correct. According to the statutory definition, a small grower is one who holds upto 50 acres. For production statistics we have adopted the statutory definition to small grower, and that comes to 65,000. But for the purpose of finance for small growers we take those owning upto 10 hectares and below. In other words, the figure of production of 57,558 relates to the small growers upto 10 hectares."

3.18 To a question how this clarification would have been forthcoming had the Committee not examined this aspect, the witnesses stated:

> "We are very sorry, we should have given this clarifiaction."

The Commerce Secretary added:

> "I really do not have much to say except that the definition could have been qualified and clearly described so that the figures could have been properly understood and appreciated. I completely agree with you that these figures baffle one unless and until the definitions are qualified. I am sorry for this."

3.19 The Committee pointed out that statutorily there are only two categories of growers, namely large growers with not less than 20 hectares of land planted with coffee and small growers with less than 20 hectares of land with planted coffee and enquired whether Government considered such categorisation as rational and whether there was need of having three categories *viz.*, small, medium and large. The Commerce Secretary deposed:

> "To be very honest, we have really not applied our mind to some of the things which have come out today. What we have done is, we have followed the lead given by the Board; for planting purposes we have got one definition of 'small growers' and for the purposes of the Act, it is different. I think, the time has come when the Ministry must seriously give a thought to it and devise a formula which is workable."

The Chairman Coffee Board, stated:

> "Reflecting your point of view, the Board, as a practical proposition, decided to recognise, for purposes of concentrated attention and help, growers with holdings upto ten hectares, although we are rendering assistance to others also. Basically, from the point of view of extending financial assistance and giving preferential treatment, the Board has recognised for practical purposes less than ten hectares holdings as small growers. Instead of calling above ten hectare holdings as 'small', as suggested by the hon. Member they could be called 'medium'. There cannot be any objection to that."

3.20 In reply to a further question how in the absence of a precise definition of an economic holding, the Ministry of Commerce/Coffee Board were in a position to draw up their shcemes for rendering financial assistance to small growers, the Chairman, Coffee Board, stated:

> "My submission is, a definition which can be automatically applied to various physiological conditions and socio-economic conditions of particular regions is difficult. We want to express the difficulty to the hon. Committee that a precise definition which is applicable to the entire coffee area cannot be made but we have suggested that a computation of an economic holding can be done taking into consideration the relevant factors. In one place, for example, in Wynad it may be 5 hectares. In Karnataka it may be 3 hectares. In Tamilnadu it may be 10 hectares. What we wanted to explain was that a precise definition is difficult."

3.21 To a question whether the Coffee Board had discussed this matter with the Ministry of Commerce or the Planning Commission who might

have attempted to define an economic holding Commodity-wise, the Chairman, Coffee Board, explained:

> "What I submitted was that a particular area cannot be treated as an economic holding for all the coffee areas uniformly.
>
> That is our submission. An economic holding defined as a holding of size cannot automatically apply to all the regions because it is dependent, as you very well know, on the yields, the family size and things like that. With a particular criteria the economic size may be something and with different criteria it may be different.
>
> Another difficulty, as you are well aware of, is that growers are very sensitive on this matter in the sense that any definition of a precise economic area just as we are deciding things like uniform cost of production, representing the entire coffee area, without subjecting that to a pre-planned concentrated study by all interests concerned would adversely affect their economic interests. That is why we do not make bold to do an exercise and commit ourselves to a particular holding size. That is the reason."

3.22 A representative of the Ministry of Commerce deposed:

> "That reply given by the Coffee Board which we in the Ministry have approved and submitted to the legislature is, in essence to the effect that it has been found difficult to define the economic size of a holding. In this context, I would like to invite the attention of the Members to the fact that from 1935 onwards several national conferences were held in regard to matters relating to the coffee industry. Under the law, we have only defined what a large grower is and a small grower is. We have felt that upto 50 acres we should treat the holdings as small holdings and beyond that, as large holdings and till now as a matter of fact, we have not examined the question as to what exactly should be considered the economic size of holding. In essence, what the Coffee Board Chairman has stated is that in case we try to attempt a definition, the factors that should be taken into consideration are a productivity, price, the needs of a particular family which has ownership over a holding, etc. We have only said that it is difficult. We have not said that it is impossible. I may submit that in case this has to be done we may be given time. With reference to the definition of an economic size of a holding, we can re-orient our development plans."

3.32 On his attention being drawn to the fact that several States had laid down ceilings applicable to different estates according to climate,

nature of the soil, productivity, etc. for different districts or areas within the State, the witness stated:

> "It is true. But, to the best of my knowledge, the land reform laws in plantation areas have clearly exempted the plantations from the purview of the ceiling provisions. So, the real exercise for the purpose of determining the economic size of the holdings has not been done."

3.24 The number of registered coffee estates with less than 2 hectares (5 areas) in the Kerala State during 1978-79 was 31,440 against the total number of 34,611 estates in that State with the total planted area of 25,129 hectares and 56,154 hectares respectively. Referring to these figures, the Committee posed the question whether in the interest of the majority of the growers i.e. those having holdings of less than 2 hectares, it was not imperative to have a clear definition of an economic holding, so as to enable this category of growers to get the maximum share of benefits of the welfare schemes, loan assistance, subsidy etc. The Chairman, Coffee Board, stated:

> "It is not difficult to undertake the exercise of going into various criteria to fix what should be an economic holdings for an individual. That has to be formally processed through the Board and that has to be formally considered by the Government because it has very great ramifications. We can certainly do the exercise of defining what should be an ecnomic holding of a person."

3.25 When the Committee pointed out that it was the policy of the Government to give incentives to the small and marginal farmers, the Chairman, Coffee Board, stated:

> "We have set to ourselves the basic approach. We normally divide our growers under various holdings, that is those who have below two, two to four, four to ten, ten to twenty and above twenty, hectares. We make the classification for ourselves for the purpose of giving assistance or help. Government and the Board have been laying considerable stress and our efforts has always been to divert our attention and energies towards lower categories of people. Our hon. Members know very well that earlier there was a considered opinion. At that time, as far as coffee was concerned, those holding below two acres were mostly considered as small-holders. Taking that into account the technical opinion of the highest authority was given namely that these cannot be made into economic units at any point of time. No amount of financial assistance or utilisation of our scarce resources by concentrating on that particular area can bring about the desired results. On the other hand, we will not be able

to assist the real classes, that is, those having two acres of holdings.

Of course they will have to be definitely benefited and their economy has to be improved. That kind of thinking on this technical opinion basis was going on. And a long time back, we have taken a decision by putting an embargo on non-channelisation of financial assistance to these small growers. By taking a massive drive in improving the economic conditions of the people in Wynad area, we have liberalised that rule and we have since declared that all those people who have below 2 acres of holdings are eligible for the financial assistance and loan. Here the difficulty experienced by them is in regard to the production of title deeds. This was considered by us and we have also dispensed with the procedure of asking them to file their deeds.

We said that on a mere submission of registration certificate we will extend financial assistance to them. Our financial assistance has been channelised mostly towards those small areas and we have set to ourselves a ceiling of 10 hectares although the statutory ceiling of 20 hectares. for all practical purposes we are observing it and the question of defining or non-defining an economic holding did not come in the way of channelising our financial assistance to the smaller and weaker growers."

The Commerce Secretary stated:

"While we have got the small and the large holdings laid down in terms of acreage we have really not worked out as to what should be an economic holding....Subject to correction, I understand, this was not one of the issues which was examined but time has come when in order to facilitate proper orientation of scehmes one must have a concept of an economic unit which might not be for whole nation but State-wise perhaps. It can be worked out and it can be wedded with the scheme of assistance which are to be provided. I would undertake this exercise in consultation with the Planning Commission and the Board."

3.26 The Committee find that of a total of 70,509, coffee estates registered as on 31-3-1979, as many as 56,159 holdings were below two hectares and another 12,268 estates had a planted area of over two hectares but less than ten hectares. Thus, over 97 per cent of the holdings are small holdings with limited financial resources and low productivity. The

Committee have been informed that in view of several variable and interacting factors such as plant material, age of coffee plants, level of cultivation, application of inputs, timely and adequate rainfall, elevation, soil fertility, etc., it has been found difficult to precisely define an economic holding. According to the stautory definition, a small grower is considered to be one who holds upto 20 hectares (50 acres). The Ministry have stated that while for production statistics the statutory definition has been adopted, for the purpose of extending financial assistance to small growers, those owning upto ten hectares are consideded as small growers.

3.27 The Committee are amazed to find that so far no, attempt has been made to lay down a definition of an economic holding so far as coffee estates are concerned. The Committee consider that in order to ensure that concentrated attention and maximum financial and other assistance is made available to the uneconomic units in order to make them economically viable, it is necessary that this lacuna is removed without delay. The Committee would like to point out in this connection that in the land ceiling laws passed by various States, due consideration has been given to the variable factors within different districts or areas in a State, such as the nature of the soil, climatic conditions, etc. which are applicable to Coffee plantations also. There is no reason why an exercise of this nature cannot be attempted successfully in case of coffee plantations in order to determine economic size of holdings region-wise and variety-wise. The Committee expect that the assurance given to them in this regard by the representatives of the Ministry during evidence would be carried out early.

(c) *Developmental or loan schemes*

3.28 The Coffee Board has been implementing several developmental loan schemes for assisting the small growers by providing them loans both for long term and short term needs. The Committee desired to know the conditions attached to these loans and the extent to which funds allocated under these schemes had been availed of by the small growers during each of the last 3 years. The Ministry of Commerce, in their reply have stated:

> "Six types of loans are paid to the growers. They are (i) Intensive cultivation loan (ii) Special purpose loan (iii) Extensive cultivation loan (iv) Replanting loan (v) Crop loan and (vi) Loan for purchase of equipment and machinery on hire purchase terms.....
>
> Actual disbursement of these loans to small growers during the years 1978-79, 1979-80 and 1980-81 was as shown in the statement below:

*Disbursement of loans to small Coffee-growers below 4 hectares during the last 3 years.**

(Amount Rs. in lakhs)

Year	Intensive Cultivation Loan		Special Purpose Loan		Extensive Cultivation Loan		Replanting Loan		Hire Purchase Loan		Crop Loan		Grand Total	
	Growers No.	Amount	Growers No.	Amount	Growers No.	Amount	Growers No.	Amount	Growers No.	Amount	Growers No.	Amount	Growers No.	Amount
1978-79 . . .	90	8·93	19	2·02	40	1·61	75	3·71	368	28·31	564	24·90	1156	69·48
1979-80 . . .	147	9·04	63	5·26	42	1·58	81	3·93	364	26·95	1224	63·55	1921	110·31
1980-81 . . .	205	11·13	190	19·39	50	1·70	86	4·18	347	26·87	1876	82·70	2754	145·97
Total . . .	442	29·10	272	26·67	132	4·89	242	11·82	1079	82·13	3664	171·15	5831	325·76

*Note: The Board has adopted the following categories of small holdings (i) less than 5 acres (2 hectares) (ii) between 5 acres & 10 acres (2 and 4 hectares) (iii) between 10 acres & 25 acres (4 and 10 hectares) (iv) between 25 acres & 50 acres (10 and 20 hectares). Hence, the information relating to growers upto 4 hectares is furnished.

Further, allocation of funds is made loanwise and not according to the size of holdings.

The following statement gives a comparative picture of loans disbursed to small growers owning less than 4 hectares vis-a-as loans to growers owning between 4 to 20 hectares and those given to all growers, large and small.

Year	Loans to small growers below 4 hectares		Loans to small growers having upto 20		% of column to column 3		Loans to all growers (small & large)		% of column 2 to column 5	
1	2		3		4		5		6	
	No of growers	Amount	No. of growers	Amount	No. of growers	Amount	No. of growers	Amount	No. of growers	Amount
1978-79	1156	69·48	1744	219·41	66·3%	31·7%	1786	254·77	64·7%	27·3%
1979-80	1921	110·31	2625	295·56	73·2%	37·3%	2696	319·57	71·3%	34·5%
1980-81	2754	145·97	3446	330·06	79·9%	44·2%	3505	379·88	78·6%	38·4%
Total	5831	325·76	7815	845·03			7987	954·22		

3.29 The Audit para points out that an analysis of the achievements under various development schemes mentioned above revealed that to end of 1978-79(i) under the scheme of loans for intensive cultivation only 9.26 per cent of the small estates availed of the facility (ii) under the scheme for supply of machinery and equipment, equipment was hired to cover a progressive total area of 0.73 lakhs acres (in about 20 years) out of over 4.63 lakhs acres under coffee cultivation and (iii) the replantation finance scheme had been availed of by 728 estates only out of over 21,000 estates. Thus, only a small percentage of the total number of growers had, in fact, taken advantage of the development schemes despite the fact that 90 per cent of the growers belonged to the category of small growers (i.e. owning less than 50 acres each).

3.30 Asked why only 9.26 per cent of the small estates could avail the loans for intensive cultivation, the Ministry of Commerce have stated:

"The following reasons are ascribed for the low coverage of growers under the intensive cultivation loan scheme of the Board:

(i) The figure of 9.26 per cent represents only the percentage of small growers who have availed of loan assistance directly from the Coffee Board. Apart from advancing loans directly to the small growers Coffee Board also operates a separate interest subsidy scheme under which Board arranges institutional finance for the benefit of small growers. Under this subsidy scheme the Board grants a maximum of 3 per cent interest subsidy to the sponsored small growers availing of loans from financial institutions. Under the interest subsidy scheme, the Board has (upto 1979-80) sponsored 7481 applications totalling Rs. 5.82 crores.

(ii) A majority of small growers, who had already mortgaged their estates for other purposes have not been able to avail of loan under the intensive cultivation loan schemes of the Board. Although 30 per cent of the total loan sanctioned under this scheme could be utilised for discharge of arrears dues, the amount was insufficient both for discharge of liabilities and intensification of the level of cultivation.

(iii) Absence of title documents disentitled many small growers from availing financial assistance.

(iv) The Coffee Board also operates a crop Hypothecation Loan Scheme for the purpose of providing working capital to the growers. This scheme, like the scheme for intensive cultivation loan, provides for hypothecation of the coffee crop. This scheme is becoming more popular and it explains why a lesser percentage of small growers are availing of intensive cultivation loans directly from the Coffee Board.

(v) In addition to the intensive cultivation loan scheme of Coffee Board, the cooperative institutions and commercial Banks also provide finance for intensive cultivation of small coffee farms.

The terms and conditions on which loan is granted have been progressively liberalised so as to enable larger numbers of growers to avail of facilities under this scheme. The statistics for the last three years from 1978-79 to 1980-81 show the trend of increasing number of growers availing of this scheme.

1978-79	93
1979-80	176
1980-81	247"

3.31 Asked why only 728 estates out of 21,000 estates had availed of the loan facility under the replantation finance scheme of the Coffee Board, the Ministry of Commerce have stated:

"Wherever there is replanting, there would be loss of income from the replanted area for 5 to 6 years until the new plants started yielding a sizeable crop. In the earlier years of the Replanting Loan Scheme which was launched in 1967-68 no subsidy to compensate this loss was available to the growers who wanted to replant un-economic coffee. Hence, the scheme did not attract many growers to avail of the Replanting Loan.

With introduction of the subsidy scheme in 1973-74, larger number of growers have availed of this loan as can be seen from data given below:

1975-76	14
1976-77	92
1977-78	120
1978-79	110
1979-80	115
1980-81	135

In addition to 728 estates that have availed of this facility under Coffee Board's scheme many other growers have availed of this loan through the financial institutions on being sponsored by Coffee Board.

The disbursements under the scheme have progressively increased from the year of commencement of the scheme, as may be seen from the following statement:

	Loan	Subsidy
Five years from 1968-69 to 1972-73	Rs. 59.59 lakhs	— —
Five years from 1973-74 to 1977-78	Rs. 72·07 lakhs	+Rs. 12·66 lakhs
Three years from 1978-79 to 1980-81	Rs. 44·39 lakhs	+Rs. 12·53 lakhs

3.32 In view of the poor response to the Replantation Finance Scheme, the Committee enquired whether the Board had approached the concerned State Governments for help in solving the problems of the small growers: The Ministry of Commerce have replied:

"As the State Governments were not expected to alleviate the difficulties of the growers, in particular, the small growers, the Board itself set up a Sub-Committee during 1969 to study the problems faced by the small coffee growers and to find out the cause for the low coverage of coffee growers under this Scheme. On the basis of the recommendations of the Sub-Committee, the following actions were taken:

(1) More publicity was given to the loan Schemes through pamphlets, "Indian Coffee" and the Board's Extension Staff to explain the salient features of the different schemes.

(2) The internal procedures for recommending, sanctioning and disbursement of loans were streamlined.

(3) For expediting legal scrutiny of title documents produced by the loan applicants, additional Legal Advisers were appointed in the three coffee growing States of Karnataka, Tamilnadu and Kerala.

(4) Government of India were addressed to enhance the rate of loan per acre for Intensive Cultivation Loan to Rs. 2,000/- for Arabica and Rs. 800/- for Robusta. The Government of India approved this.

(5) The limit for Replanting Loan Scheme was increased from 50 per cent to 100 per cent of the area to be replanted."

While admitting that only 9.26 per cent of the small farmers had taken advantage of the intensive cultivation Loan Scheme, the Secretary, Ministry of Commerce, deposed during evidence:

"There are six other schemes. You will be happy to know that a substantial portion of loans has gone to the small growers.

Out of the total loan of Rs. 21.35 crores disbursed upto 1980-81, since the inception, an amount of Rs. 18.74 crores has gone to small growers...When we calculated the whole thing, we were happy to find that 88 per cent of the amount has gone to the small growers. For the three years, 1977-78 to 1979-80 loan assistance from the financial institutions has gon to over 17,000 small growers with interest subsidy from the Board."

He added:

'As I submittted while there are certain schemes where the totality of the credit is given by us, there are a number of other schemes where they go to the banks for loans and Coffee Board provides interest subsidy on loans. The production of the small growers has risen from 31,000 tonnes to 91,000 tonnes in 1979-80. Their share of the total production has thereby gone up from 46 per cent to 61 per cent over this period. If these figures are to be taken, certianly small growers have received a fairly good amount of assistance. Again if you kindly look to what we have done on the R&D and training facilities, extension work, that is aagin mostly oriented towards the interests of the small growers."

3.34 In reply to a further question on the subject, the Chairman, Coffee Board stated:

"When we found taht the financial reqeuirement to cover bulk of the small growers was pretty high and that could not be adjusted within the budgetary provisions, then the Plannnig Commission devised a system by which the financial assistance will be rendered by the financial institutions *viz.*, the banks to the small growers. And if the banks charge a little higher rate of interest, the difference between the Board's rate of interest and the rate of interest charged by the Bank upto a maximum of 3 per cent is subsidised by the Board."

He added:

"Normally the rate charged by the banks to the agriculturists minus the rate of interest charged by the Board is subsidised. That is how we expanded on a massive scale. As you are very well aware, originally it used to be a few lakhs of rupees per year, now we have stepped it upto a level of 15 to 16 crore rupees per year."

3.35 Asked whether this was a grant from the Government of India, the witness deposed:

> "Except the subsidy portion under the interest subsidy scheme, which goes as a grant, the loan which we directly lend to the small coffee growers we borrow from the Government and disburse it to them."

3.36 Asked whether the Coffee Board had explored the possibility of gettting bank finance under differential rate of interest (DRI) scheme small coffee growers, particularly those holdings below five hectares, the witness stated:

> "We have not done that because we are handling this only under these two categories to a sufficiently large number. The ARDC are covering 100 per cent small growers in that area."

He added:

> "There was no need for considering DRI because we give rate of interest which is lowest—9.5 per cent to 10 per cent."

Asked whether loans under DRI Scheme were not cheaper, the witness deposed:

> "Not for Coffee. That is probably for marginal category.... the Banking Ministry may not consider coffee growers with five hactares as below marginal."

3.37 The Committee wanted to know whether an evaluation of these schemes had been made and if so, to what extent each of these schemes had contributed to increase production of coffee by small growers. The Ministry of Commerce have stated:

> "While a formal evaluation of the development schemes *vis-a-vis* production has not been undertaken so far, reviews of the operation of these schemes are continuously undertaken at the level of senior officers of the Board in the Headquarters, Field Officers as well as in the Development Committee of the Board. As a result of these reviews measures calculated to bring under the fold of these schemes more number of small growers with a view to increasing their share of production of coffee and filling the credit gap have been taken over the years. Some of the major steps taken in this regard are enumerated below:
>
> (i) To enable large number of unregistered holdings to secure loan from the Board concerted efforts have been made with the help of the State Governments to bring under registration their coffee holdings, with the result, so far, more than 45,000 unregistered estates have been registered during the last 5 years.

(ii) The reqeuirement of submission of title deeds by small growers upto 25 acres in respect of crop loan has been dispensed with. Now they are eligible for loans by merely depositing their coffee registration certificates.

(iii) To augment the total credit assistance available to the small growers the Board has arranged through the financial Institutions credit facilities coupled with interest subsidy paid by the Board, from 1977-78 onwards.

(iv) Structural changes in the Development, Research and Extension Wings of the Coffee Board have been made to reach the small growers more expeditiously and to enable them to secure credit nearer to their locations by way of the following:

(a) Four Officers of Regional Dy. Directors were opened in traditional coffee States and development loan cases are dealt at (1) Chikmagalur (2) Mudigere (3) Calicut (4) Coimbatore and a decentralisation programme adopted by the Board.

(b) Nine Loan Inspectors were appointed.

(c) Six Regional Legal Advisers were engaged for expeditious examination of title deeds of the loan applicants.

(d) No. of extension centres were increased to 48.

(e) Each Extension Officer's area of operation was reduced from 30,000 acres to about 12,000 to 15,000 acres and the number of small growers to be covered by each Extension Officer was reduced to 2000.

(f) 3 more demonstration farms were opened in traditional coffee areas for demonstrating improved agronomic practices to small growers.

(g) One pest surveillance squad and 2 mobile soil testing vans were added to demonstrate pest control methods and for analysing soils for fertiliser recommendations.

(h) Loan sanctioning and disbursing powers were decentralised to the Regional Deputy Directors who are now vested with powers to sanction loans upto Rs. 15,000.

While it is difficult to quantify the contribution of these schemes to the increase in production, all these measures, namely, increased financial assistance and expanded technical support have augmented the investment of small

growers resulting in substantial increase in their production and productivity. Over a period of 9 years, the production and productivity of small growers have increased by 198 per cent and 99 per cent respectively as indicated below:—

	Production in tonnes	Productivity in Kgs./ per ha.
1971-72	31,745	453 50
1979-80	91,507	904·7

The total production and productivity (for both small and large growers) have also goen up—

	Production in M.T.	Productivity Kg/Ha
1971-72	68,948	555·14
1979-80	1,49,700	888·10

3.38. Referring to the role of institutional finance in helping the small growers to increase their productivity, the Indian Institute of Management have, in their study, observed as follows*:—

"The bigger coffee growers make demands on the Board's services and have benefited from it. Most of the small growers, because of their ignorance, inertia, lack of conviction or poor organization and economic resources, have not responded to the Coffee Board's range of services. The small growers continue to depend on indigenous non-institutional sources of finance despite their excessive cost. This may be due to the speed and convenience with which such agencies give the financial assistance in contrast to that of the Coffee Board and/or the bankers.

* * * * *

In the area of financial services, the Coffee Board's role in bringing the grower and the bank together for financial services needs to be reconsidered. The Coffee Board should have a greater financial resources capability within itself to render services through its extension staff. This would also involve significant changes in the existing procedures and legal formalities

*Not Vetted in Audit.

which have to be complied with by the small farmers prior to their obtaining financial assistance. A greater amount of flexibility in the legal requirements to be satisfied by small farmers is necessary even if it results in defaults in a few cases."

3.39. The Committee note that the Coffee Board has introduced six types of development loan schemes for assisting the coffee growers to meet their long term and short term needs. These are (1) Intensive Cultivation Loan, (2) Special purpose Loan, (3) Extensive Cultivation Loan, (4) Crop Loan, (5) Replantation Loan and (6) Loan for Purchase of Equipment and Machinery on hire purchase terms. Audit have pointed out that till the end of 1978-79 only a small percentage of the small growers (owning less than 50 acres each) had taken advantage of the various developmental schemes despite the fact that they represented 90 per cent of the growers. The data furnished by the Ministry for subsequent years shows that there has been hardly any visible improvement in the situation. During the year 1978-79 to 1980-81 only 7,815 growers out of a total of 69,524 growers (11.2 per cent) owning upto 20 hectares availed of the various loan schemes. The total amount disbursed during these years under all these schemes was Rs. 9.54 crores only. Of this, the share of 5,831 small growers owning upto 4 hectares was Rs. 3.26 crores. Thus, the smallest of growers who constitute bulk of the growers in this category and who need maximum assistance, received only 33 per cent of the Loans.

3.40. It is obvious that the various schemes of financial assistance floated by the Coffee Board have benefited only a very small percentage of growers and the smallest of them have in fact been neglected. The study carried out by the Indian Institute of Management, Ahmedabad has pointed out that while the bigger coffee growers make demands on the Board's services and have benefited from them, the small growers, because of their ignorance, inertia, lack of conviction or poor organization and economic resources have not responded to the Coffee Board's range of services and that they continue to depend on non-institutional finance. This is indeed unfortunate and reflects the indifference of the Board to the requirements of the small grower. The Committee desire that a thorough evaluation of the various loan schemes should be carried out without delay so as to ascertain the reasons for the inability of the Coffee Board to reach the small grower and to re-orient the incentive schemes into a purposeful package for achieving the desired results, viz. improvement of the lot of the small cultivator and augmenting productivity per hectare, which are complementary objectives.

3.41. The Committee urge that financial assistance on the much larger scale than provided so far should be arranged if the productivity of the

small grower is to be stepped up. Apart from the Board subsidizing the interest payable by small growers, the feasibility of getting bank credit extended to them directly under the Differential Rates of Interest (DRI) Scheme may also be considered by the Government. The question of providing banking facilities in these areas should also be taken up by the Coffee Board with the Ministries of Commerce and Finance. Needless to say that the procedures for sanctioning loans have not only to be simplified and streamlined, wide publicity should also be given to the various schemes in the coffee growing areas, in the regional languages.

(d) *Productivity of small growers*

3.42. The Audit Para points out that the average yield in respect of small growers who constitute more than 90 per cent of registered growers, varied from 216 kg. to 583 kg. per hectare whereas it was between 774 kgs. and 1057 kgs. per hectare for large growers. The Committee enquired whether any study had been made to ascertain the reasons for the low productivity of small and medium growers and if so, what efforts had been made to ascertain the reasons for the low productivity of small and medium growers and if so, what efforts had been made by the Coffee Board to augment the same. The Ministry of Commerce have stated in a note:

> "A socio-economic survey for ascertaining reasons for lower production by small growers was conducted by the Coffee Board during 1970 in collaboration with the Gokhale Institute of Politics and Economics, Pune. This survey has revealed the following reasons:
>
> (i) want of technical know-how;
>
> (ii) availability of timely adequate finance; and
>
> (iii) registration of coffee estates for obtaining proper title deeds to the property.
>
> Necessary corrective measures were taken by the Coffee Board from time to time and also efforts were made to hasten the registration of coffee estates. The terms and conditions for grant of financial assistance were liberalised, with a view to provide adequate timely finance to the small growers. Since 1977, several extension centres have been created to increase production and also to improve the extension and developmental services to the small growers. The financial banks were also encouraged to provide liberalised finances particularly to the small growers to enable them to improve their holdings and improve their production.

4.43. In a further note on the subject, the Ministry have stated:

"The details of the measures undertaken to increase the productivity in the small growers sector are the following:—

I. *EXTENSION*

(1) Extension centres for providing adequate advisory services to the small growers have been increased from 14 to 48 and four Deputy Directors have been put in charge and they have been given powers to sanction loans to the small coffee growers since the past 3 years.

(2) The number of coffee Demonstration Farms have been doubled from 3 to 6 to demonstrate improved methods of coffee cultivation to small growers.

(3) In addition to the Soil Testing Centre at Mysore, two Mobile Soil Testing Units have been set up to advise growers on manuring and soil amendment.

(4) A Mobile Pest Surveillance Squad has been set up only to monitor studies of pests and diseases, but also to educate the growers to combat pests and diseases through actual demonstration.

II. *DEVELOPMENT*

(1) The Coffee Board has been implemented several departmental loan schemes for assisting the small growers sector by providing them loans both for long term and short term needs. Government of India have been allocating revolving loans for this purpose which are being utilised for granting loans to the small planters. The scheme of liberalised crop loan was launched during 1977-78 to enable small growers to obtain loans merely on deposit of original Coffee Registration Certificates without demanding the title deeds.

(2) Interest subsidy scheme has been launched involving the banks to advance credits to the small growers sector. Under this scheme, a subsidy to a maximum of 3 per cent is made available to the banks who provide credit facilities to the small growers so that the grower gets his credit at subsidised rate of interest. For the past 3 years, nearly Rs. 20 crores have been advanced by the financial institutions like Banks, Co-operative Credit Institutions.

(3) A subsidy is in operation by the Coffee Board to provide subsidy to small growers to replant old coffee with poor yields with high yielding disease-tolerant varieties of coffee

supplied by the Board. Under this scheme a replanting subsidy of Rs. 2500/- per hectare is given.

(4) The small growers are also given a subsidy of Rs. 2500/- per hectare to enable them to expand the area under coffee.

(5) Visits by research personnel to the small holdings has been stepped up.

It is thus seen that progressively all efforts have been made by the Board to increase the productivity of small growers.

As a result of the number of measures taken by the Board for increasing production in the small growers sector during the Fifth Plan period and subsequent two years, the share in production of the small coffee sector increased to 42 per cent in 1974-75 and to 51 per cent in 1979-80.

This can be seen from the following table:

Total Year	Production — Share of small and large Growers (In Tonnes) Small	%	Large	%	Total
1971-72	24,091	35	44,857	65	68,948
1972-73	32,124	35	58,948	65	91,072
1973-74	38,058	44	48,330	56	86,388
1974-75	38,411	42	54,095	58	92,506
1975-76	33,429	40	50,553	60	83,982
1976-77	43,000	42	59,248	58	102,248
1977-78	64,168	51	60,973	49	125,141
1978-79	57,558	52	52,475	48	110,033
1979-80	75,794	51	73,439	49	149,233

3.44 During evidence, the Committee desired to know the steps taken to make the extension centres more effective so far as the small growers were concerned. In reply, the Chairman, Coffee Board stated:

"Following the Report of the Research Evaluation Committee, the Board took very important decision relating to the research and extension activities in the coffee areas. They made a fundamental suggestion that the Central Coffee Research Station should be made independent of the extension work and the Coffee Research Station should concentrate on adoptive applied research and sometimes to the extent necessary fundamental research also. We have implemented fully that recommendation and we created a functionally independent wing

called the extension wing and we have also approached the Government for substantial expansion of the structure of the extension department and we also decided to integrate development function because that is the easiest way of reaching the smallest farmer in the coffee areas.

Now we have seven Deputy Directors for extension. The expansion of extension centres from 14 to 48 was done basically with the following ideas as per the recommendations. Formerly each extension officer was handling fifteen thousand hectares. We reduce his jurisdiction to a range of 2000 to 5000 hectares, so that at the lowest level, the junior extention officers can pay personal and individual attention to all the growers within their reach. We also appointed senior liaison officers and a Deputy Director. We also strengthened the Department, by establishing the Loan Inspectorate.

From 15,000 to 5,000 hectares is a big reduction in the control area. If necessary we will go in for further division. This scheme was implemented only three years ago. It is consolidating itself. But depending upon the need, we will go in for further expansion. We have delegated adequate powers to the Regional Deputy Directors of Extension to sanction and disburse loans at their level itself. It is working well because a number of small loanees under both interest subsidy and direct loan schemes are benefited. We have also given a very good legal assistance. Documents are to be properly scrutinised. Sometimes the growers have to be helped in producing and collecting them for submission. For this purpose, we have appointed officers at the regional level."

3.45. Asked whether an assessment had been made of the success of the research and extension efforts, the witness deposed:

"It is working extremely satisfactorily. I make a personal review of the work of the research station and of all the extension centres. The Research Committee is very vigilant about the activities in various extension areas. At the meetings with the growers, all their problems are regularly communicated to the head of the department who sits with the Director, Finance, making necessary modifications, liberalizing loan schemes and processing the reports to the Committee and to the Board. As of now, all the demands made by them have been sorted out."

3.46. On being pointed out that the number of demonstration farms had gone up only from 3 to 6, the witness clarified:

"This increase is in the non-traditional areas. In addition, we have three more demonstration farms already established there. Two more are going to be established in traditional areas, and another two in the non-traditional areas in the next two years. It is already provided for in the 5 year plan. But depending upon the annual Plan provisions, we are going ahead with it. Moreover, we have already established one regional research centre. We want to establish one regional centre in Tamil Nadu, to give special support there. After three years of arduous dialogue with the Tamil Nadu Government, we could get land there. We are going to set up a research station in collaboration with the Agricultural University at Coimbators. Similarly, at Diphu in Assam, we will develop a research sub-station, in collaboration with the Agricultural University there.....By and large, this extension support is very well appreciated by our growing community. We are very responsive to the demands of small growers. When they have some problems, we help them. We have provided special vans for this purpose."

3.47. Asked specifically about the steps taken to improve productivity of small growers of robusta which was a major foreign exchange earner, the Chairman Coffee Board stated:

"In the light of my experience I shall certainly say that the conditions of small growers of robusta in Wynad were miserable about five years ago. We know that at that time the productivity was the lowest. Investments were practically nothing on coffee. The incomes were abysmally at the low level. Realising the depressing situation and after making a detailed study of their socio-economic conditions, their holdings, the level of technology etc. in close collaboration with the ARDC and other expert bodies on the technology side etc., we have taken up a special drive for the uplift of the small growers in that area. One important decision that we took was that all the small growers holding less than two acres at that time were not considered for any financial assistance. This holding was held to be uneconomic holding by the Government at that time. There had been no point in investing more on that. It was a retrograde step. So, that view was reversed by us and we said that whatever may be the condition of security etc. all of them shall be made eligible for financial assistance.

Secondly, the A.R.D.C. was persuaded to take up two important schemes in that area to cover various aspects of the development of coffee cultivation with a view to increasing productivity and production and thirdly, we have taken an excellent and favourable decision. The decision was that the Indian market consumes a substantial quantity of robusta. Therefore, to that extent, the robusta could not be exported. As a special case, we have decided that we shall impose a proportion as between robusta and arabica. The same proportion will be applied to the exports and for the internal consumption even though in actuality a particular quantity had not been exported, but was consumed internally. A token price value will be given as though that quantity is exported. On that basis, we have evaluated the price differential scales and the additional benefits like bonus points were passed on to the robusta growers in Wynad."

The witness added:

"In Kerala, during the last five years, the coffee production has increased by 300 per cent on account of the special drive we have taken with the small growers. A tremendous credit was given to them and so their productivity has become very high. At one stage, this was a most backward area. Now it is the most leading State in productivity. The highest concentration of small growers is there in Kerala State. They have responded very well to all the schemes we have introduced for the development."

3.48. The Indian Institute of Management have, in their study, pointed* out as follows:—

"...the Coffee Board's efforts to promote cooperative farms of organization amongst small coffee growers has not yielded any significant results.

Since increases in coffee production through productivity increases cannot be achieved unless the small farms are motivated through a vision of economic benefits of productivity increases and consequent use of the Coffee Board's services, the Board's role and functions in relation to small farmers needs a review.

It would seem that the Coffee Board has to play a more direct and aggressive role in making the small farmer realise the need for increasing production and thereby reap economic and financial benefits. Such a role requires more financial and skilled

*Not Vetted in Audit.

manpower resources on the part of the Coffee Board. The extension staff should be increased and specifically earmarked for groups of small farmers in smaller geographic zones so as to ensure a greater concerted and concentrated attention to such groups. The staff should be given time bound targets for productivity increases in the estates of small farmers assigned to each staff member. They should also be made responsible for achieving such targets."

3.49. The Committee find that the average yield of small growers who constitute more than 97 per cent of the registered growers varied from 216 kgs. to 583 kgs. per hectare as against the productivity of large growers ranging between 774 kgs. and 1,057 kgs. per hectare. The Committee have been given to understand that in order to increase the productivity in the small growers' sector, the Coffee Board has initiated several loan schemes, such as, the Liberalized Crop Loan Scheme, the Interest Subsidy Scheme, etc. Besides, a number of extension centres have been established for providing advisory services to the small growers. Demonstration farms have also been established at various places to demonstrate improved methods of coffee cultivation to small growers. A mobile pest surveillance squad has also been set up to monitor study of pests and diseases and also to educate the growers in methods to combat these. As a result of the measures taken by the Board, the share of the small coffee growers in the total coffee production is stated to have gone up from 42 per cent in 1974-75 to 51 per cent in 1979-80. It has been further claimed that in Kerala, where the concentration of small growers is the highest, coffee production has increased by 300 per cent during the last five years as a result of the special drive undertaken to improve productivity. The growth in indicative of the potential that can be achieved.

3.50. In this connection, the Committee would like to draw attention to the observations of the Indian Institute of Management, Ahmedabad that the efforts of the Coffee Board to promote co-operatives amongst the small coffee growers have not yielded any significant results. The Committee would urge that the Board should redouble its efforts in this direction so that the small coffee growers could be helped in a substantial manner via the co-operatives.

3.51. The Committee understand that in order to provide more effective extension service to the small growers the Board have reduced the jurisdiction of extension officers from 15,000 to 5,000 hectares. The Committee consider that apart from providing more financial resources to the small growers, it is necessary for the Board to make available the services of skilled personnel to the small farmers who are largely illiterate and ignorant of modern methods of coffee cultivation. The extension staff must

be given a phased and well-thought-out programme for stepping up production in the small estates and they must be made a accountable for achieving the targets. The Committee are of the view that the expansion of coffee cultivation in non-traditional areas calls for further strengthening and augmenting the number of demonstration farms/extension centres as well as setting up of regional research centres like the one established recently in Tamil Nadu in collaboration with the Agricultural University at Coimbatore. The Committee would urge the Board to take energetic steps in this direction under a time bound programme.

(e) *Return to Growers*

3.52. The Audit para points out that the total return to the growers in addition to the reasonable return on capital had been substantially high and consequently no part of the excess gain had been passed on to the consumer though this was recommended (Decemwer 1975) by the Cost Accounts Officer of the Government of India.

3.53. To a question whether Government had considered the question of issuing suitable guidelines to the Board in regard to excess gain being passed on to consumers, the Ministry have stated:

"At the outset it may be mentioned that the Indian consumers have enjoyed the benefit of reasonably stable coffee prices over the period 1973-74 to 1977-78. The wholesale price index of coffee in 1974 was 102.7 which rose to 121.1 in 1978 with the base year 1970-71 equal to 100. This accounted for a rise of only 18.4 points over 5 year period, whereas during the corresponding period the increase in the wholesale price index for Tea was 71.5 points, for Rubber, 36.2 points and for Black Pepper, 101.4 points. This benefit of stable price to the consumers has been possible only by diverting the gains, which the coffee growers obtained in the export market, to indirectly subsidise the internal market operations.

The table given in the Annexure to this reply shows the percentage of gain over the Cost of Production which the coffee growers have secured over the seasons 1973-74 to 1978-79. As the costs of production are different for different type of coffee (Arabica & Robusta) the gains would also have to be calculated separately.

As can be seen from the table, the percentage gain to the growers varies from as small as 5 in 1974-75 to the maximum of 134 in the year 1976-77. It may be mentioned here that 1976-77 was a freak year when the international prices for coffee rose to abnormal heights and hence thegrowers obtained phenominally high prices. But, thereafter the returns have been

declining, as could be seen in the table for 1977-78 and 1978-79.

It may also be mentioned here that as returns to the growers are worked out only after the marketing operations for a year/season are over, it is difficult to precisely determine what is likely to be the ultimate return to the grower and to take a decision in advance to pass on any benefit to the consumers within the country.

It may be added that any attempt to depress the growers' gain supposedly for the consumer's benefit could turn out to be counter productive by discouraging production and bringing more area under coffee."

Table indicating costs of Production of Coffee, return to the grower and percentage of gain.

Season	Cost of cultivation per quintal Rs.	Cost of Production per Points Rs.	Rate of return to growers per point Rs.	Percentage of gain
	ARABICA			
1973-74	331·83	3·84	5·5370	44
1974-75	403·00	4·66	5·5327	14
1975-76	454·94	5·26	8·3992	60
1976-77	446·73	5·17	12·1000	134
1977-78	486·04	5·62	8·0500	43
1978-79	618·47	7·15	7·6000*	6
	ROBUSTA			
1973-74	258·24	4·25	5·5370	30
1974-75	305·00	5·08	5·5327	5
1975-76	311·28	5·18	8·3992	62
1976-77	368·30	6·13	12·1000	97
1977-78	336·15	5·59	8·0500	44
1978-79	395·49	6·58	7·6000*	16

*Provisional.

NOTE: (1) Cost of Production per Point with the base figure for 1974-75 have been suitably increased/decreased for other years in the same proportion on the Cost of Cultivation. The Cost of

Cultivation has been worked out on the basis of statutory returns furnished by the growers and on the methodology adopted by Cost Accounts Officer of Ministry of Finance."

(2) Under Section 25(4) of the Act, the Board is required to prepare a differential scale for the valuation of coffee delivered for inclusion in the surplus pool. The value, thus, determined is applicable to quality of coffee at the fair average quality (FAQ) level. This FAQ level is determined for each season based on the overall quality of coffee available during a season and plus/minus points are awarded for coffee of better|poorer quality over/below FAQ level for a proper estimation of its price.

3.54 In reply to a question to what extent the cost of production had gone up, during the last five years, the Chairman, Coffee Board, stated in evidence:

"We are giving Rs. 16,000/- per tonne to the grower. The grower is getting this amount of Rs. 16,000/- out of three-fourths of an hectare. That means approximately a hectare would get him Rs. 20,000/.....His income five years ago was Rs. 5,000/- per hectare. Today it is Rs. 20,000|- per hectare, even taking into account the increased cost of cultivation."

3.55 Asked about the production cost per point during 1977-78 and 1978-79, the witness stated:

". . . In 1977-78, the cost of production per point was Rs. 5.62. In 1978-79, the point value paid is Rs. 8.05. The cost of production was estimated at Rs. 7.15. As against that, we paid so far Rs. 7.93. During 1979-80, we are going to reach as much as Rs. 8/-. The export benefit that is going to the grower is that portion which is more than internal price upto Rs. 16,000 per ton plus 50 per cent of the excess. These two portions would go to the grower. In the year 1978, the internal price was Rs. 10,230 per tonne and the external price was Rs. 23.440/-. Benefit by way of exports works out to over Rs. 13,000/-. . ."

3.56 On being asked whether there was any guaranteed minimum price to be paid to the growers, the witness stated:

"We revise it regularly from time to time once in two to three years. The Government's Cost Accountant determines the cost of production. . .for the purpose of arriving at the minimum release price. In the Coffee Board, we evaluate the cost of production practically every year and in times of need we

intervene with the permission of the Government and we revise in an *ad hoc* manner the minimum release price by a certain percentage. This is constantly under watch. In any case, the coffee is always sold, I can assure you, both in the internal market as well as in the external market at the price higher than the evaluated costs of production. So far that is the market situation and there is no dispute about it."

3.57 The Committee desired to know whether the Coffee Board had carried out any studies with regard to the cost of production of coffee per hectare and if so, what the findings were and how did the prices paid to the growers compare with the actual cost of production. In a note the Ministry of Commerce have stated:

"The Coffee Board periodically arranges for the cost of production of coffee to be computed by a team of Cost Accounts Officers of the Ministry of Finance, Government of India. The last computation of cost of production of coffee was made during December, 1975. Since January, 1982 another team of five Cost Accounts Officers are presently touring the Coffee estates for the purpose of collecting data for computation of upto-date cost of production.

The Costs of production as computed by the Cost Accounts Officers (and updated from year to year) and the average prices paid to the growers per metric tonne are shown below:

Season	Plantation		Ar. Cherry		Rob. Cherry		Rob. Parchment	
	C.P.	R.G.	C.P.	R.G.	C.P.	R.G.	C.P.	R.G.
1973-74	5913	8527	4915	7087	4845	6312	5015	6534
1974-75	7176	8212	5965	6826	5791	6079	5994	6293
1975-76	8100	12935	6943	11087	6112	9911	6423	10415
1976-77*	7962	18634	6824	15972	7233	14278	7601	15004
1977-78	10790	15456	9329	13363	8273	11914	8720	12558
1978-79	13728	15226	11869	13164	9738	11736	10265	12371
1979-80		14880		12865	..	12555		12555
1980-81	Payments are in progress							

Note: C.P.=Cost of Production, R.G.=Returns to growers.

*Freak year:

The returns paid to growers are—

(i) related to seasons and not to years; and

(ii) dependent on the quality, grade and type of coffee.

3.58 The Committee pointed out that under Section 16 of the Coffee Act, Government was empowered to fix the prices at which coffee could be sold whole-sale or retail in the country and enquired whether this power had ever been exercised by Government. In a note, the Ministry of Commerce have stated:

"The power under Section 16 of the Coffee Act to fix prices at which coffee can be sold wholesale or retail appears to have been exercised once before in 1944 for a short period to promote/increase consumption of coffee in the interest of grower.

In the recent past the need for exercising this power has not arisen in view of the fact that the internal prices of coffee have been more stable than those for other commodities, foods and cereals shown below—

INDEX NUMBER OF WHOLESALE PRICES OF COFFEE AND CERTAIN OTHER PRODUCTS IN INDIA
1971 to 1979

BASE: 1970-71 = 100

Sl. No.	Year	Annual Average number of wholesale price of			
		Coffee	Tea	Rubber	Black Pepper
1.	1971	74·6	113·3	104·7	95·4
2.	1972	78·8	109·6	104·7	79·4
3.	1973	89·2	107·2	104·7	95·2
4.	1974	102·7	148·8	147·4	155·7
5.	1975	115·3	172·4	163·3	174·4
6.	1976	128·0	192·0	128·2	217·4
7.	1977	133·1	262·3	132·7	257·5
8.	1978	121·1	220·3	183·6	257·1
9.	1979	127·1	221·3	212·6	234·7
10.	1980	126·7	231·7	236·9	204·6

Year	All Commodities	Food Articles	Cereals	Coffee
1971	105·0	101·0	100·9	74·6
1972	113·0	107·9	111·4	78·8
1973	131·6	128·6	128·8	83·2
1974	169·2	165·3	178·1	102·7
1975	175·8	170·2	185·7	115·3
1976	172·4	152·2	151·6	128·0
1977	185·4	170·8	161·2	139·1
1978	185·0	173·5	158·1	121·1
1979	206·0	181·4	167·1	127·1
1980	248·0	200·7	189·5	126·7

3.59. In their study of the Indian Coffee Industry, the Indian Institute of Management, Ahmedabad, have observed*:

> "While returns have improved dramatically in the last few years owing to galloping increases in international prices caused by Brazilian crop failure, recent price movement already depict a declining trend. It is desirable for the growers, particularly the small growers, to have stable returns over a longer time period rather than be exposed to wide fluctuations. One way to ensure steady returns is for the Board to set up a price-stabilization fund which smoothens the fluctuations. The fund can be used to supplement payments to growers during period of poor realizations, and/or hold stocks for obtaining better prices at a later date."

3.60. From the data furnished to the Committee, it is seen that there are very wide fluctuations in the rate of return to the growers. In respect of arabica, the rate of return during the period 1973-74 to 1978-79 has varied from 6 per cent in 1978-79 to 60 per cent in 1975-76 (excluding 1976-77 which is stated to be a freak year as the international prices rose to abnormal heights and the percentage of gain was as high as 134). Similarly, in respect of robusta coffee the return has varied from as low as 5 per cent in 1974-75 to 62 per cent in 1975-76 and 97 per cent in 1976-77. It is further observed that the rate of return has dipped from 43 per cent in 1977-78 to 6 per cent in 1978-79 in the case of arabica and from 44

*Not Vetted in Audit.

per cent to 16 per cent in the case of robusta coffee. The need for ensuring steady returns, particularly to small growers while at the same time protecting the interests of the consumers, is therefore quite obvious. The Committee understand that the Indian Institute of Management, Ahmedabad has suggested setting up of a price stabilization fund to smoothen the fluctuations. The fund can be used to supplement payments to growers during the period of poor realizations and/or to hold stocks for obtaining better prices (with international market) at a later date. The Committee would like this suggestion to be examined in all its aspects and an early decision taken.

3.61. So far as the question of working out the cost of production of coffee is concerned, the Committee understand that a team of Cost Accounts Officers of the Ministry of Finance periodically reviews the same. An exercise of this nature was last made during December 1975. Since January 1982, another team of five Cost Accounts Officers is stated to be examining the question.

3.62. The costing study ought to be based on adequate knowledge not only of the scale of economy or locational features of coffee plantations but also of the different seasonal and cultural factors. The Coffee Board, equipped as it is with the necessary data and expertise in the matter, should therefore be closely associated with the costing studies carried out by the team of Cost Accountants of the Government of India. If necessary, services of some eminent economists may be utilised for the purpose. In this connection it may be mentioned that coffee which is produced mainly by small growers is losing in value compared to other commodities such as tea, rubber, black pepper etc. Moreover, there is monopoly procurement and monopoly disposal of this commodity. No scientific system of costing of coffee has so far been evolved by the Coffee Board. The Committee would, therefore, like the Coffee Board to go into this question and evolve a suitable costing system with a view to working out a fair price for the consumer as well as the grower.

(f) *Registration of Coffee estates*

3.63. Under Section 14 of the Coffee Act, all growers of coffee have to get their estates registered with the concerned State Government. There were 39,462 unregistered estates with planted area of 34,977 hectares at the end of 1977-78. The Committee were informed (September 1981) that a census of coffee estates both in traditional and non-traditional areas had been taken up and was expected to be completed in another 3 months time. The number of unregistered estates would be known after the census is completed. However, 14,160 number of applications for registration of

coffee estates are pending with various Registering Authorities. This does not include the un-registered estates which are yet to apply for registration.

3.64. Asked whether there had been any improvement in registration as a result of special drive launched by the Coffee Board between 1976 and 1978, the Ministry of Commerce have stated:

> "Yes. At the time the special drive was launched there were 35,253 estates pending registration. During the period of the special drive a total number of 46,000 estates were registered which included, most of the 35,253 estates and also newly planted estates."

3.65. The Committee wanted to know whether the Coffee Board was still re-imbursing expenditure to the State Governments for registration purposes even though it was not necessary to do so, since the States collected fees for registration. The Ministry of Commerce have stated:

> "The scheme of appointment by the State Government of special staff for hastening the registration of estates has been discontinued from 1-4-1981 since majority of the unregistered estates have been registered by 31-3-1981.
>
> The registration of estates is the statutory responsibility of the State Governments but considering the large number of un-registered estates in existence and the inability of the State Governments to undertake special drive for registration, the Board in the public interest, has to approach the State Governments for appointment of additional staff at its cost."

3.66. During evidence, the Committee enquired about the efforts being made to register the unregistered estates and the extent of success achieved on this account. The witness stated:

> "We discovered during the last census—that was the first—which was conducted for collecting material concerning the socio-economic conditions of coffee growers that there were 35,000 unregistered holdings. The Board expressed concern on that and approached the Government of India to move various State Governments to accelerate the process of registration so that these people should be enabled to draw financial assistance from the Coffee Board and other financial institutions and secondly quantum of coffee produced by unregistered

estates must come to the pool and the pool should be augmented from the point of view of meeting the internal and external demands. The registration formality is to be done by State revenue authority. We made two suggestions to the State Governments that they should appoint special staff and power be delegated to the lower staff like Tehsildar instead of Collector. The normal staff could not handle the job and, as such, the Board decided that in the interest of small growers and pool we shall bear the extra cost involved in the appointment of extra staff. Kerala and Tamil Nadu Governments accepted and appointed special staff. During the last 5 years, forty-five thousands unregistered estates have been registered todate. Now, that the main areas have been sorted out the special staff has been disbanded and the work is going on in normal way. The second census coming in the current year might reveal new areas and if the problem becomes acute, the Board will take similar steps to see that registration work is expedited."

3.67. As at the end of the year 1977-78 there were as many as 39,462 unregistered estates with planted area of 34, 977 hectares. The Committee were given to understand that a census of coffee estates, both in-traditional and non-traditional areas, had been taken up (September 1981) and the exact number of unregistered estates would be known after the census was completed. However, 14,160 applications for registration of coffee estates were stated to be pending with the various registering authorities. Earlier, a special drive launched between 1976 and 1978 had revealed that the number of estates pending registration was 35,253. During this period of two years, a total of 46,000 estates were registered which included most of the 35,253 estates and also newly planted estates.

3.68. The Committee attach considerable importance to the question of prompt registration of coffee estates. From the standpoint of the Coffee Board itself registration of coffee estates would result in bringing more coffee to the pool. The Committee, therefore, consider that sustained publicity needs to be given to the advantages flowing from registration of coffee estates, especially in regard to eligibility for financial assistance. The Committee have no doubt that the Board would intensify their efforts in this direction. The Committee are of the view that a biennial census of the coffee estates should be undertaken. The assistance of the extension staff might usefully be availed of in this work. Periodic socio-economic surveys should also be undertaken as already stipulated in IRDP scheme. The Committee further recommend that a time bound programme should be laid down for registering the pending applications. New applications should be registered within six months failing which the estate should be deemed to have been registered.

(g) *Curing establishments*

3.69 A statement showing names of curing works (State-wise) and Coffee cured by them during the seasons 1977-78 to end of 1979-80, furnished by the Ministry of Commerce is reproduced below:

(In Tonnes)

A. KARNATAKA STATE M/s:	1977-78	1978-79	1979-80
1. Perice Leslie (India) Ltd. Mangalore	6625	6393	7727
2. Consolidated Coffee Ltd., Mangalore	5958	5857	7921
3. Aspinwall & Co. Mangalore	8695	6250	9092
4. P.F.X. Saldanha & Sons, Mangalore	3500	3449	4229
5. A.J. Saldanha & Sons Mangalore	520	413	444
6. Kushalnagar Works, Kudige	7336	6057	10246
7. Hunsur Works, Hunsur	9033	7899	9878
8. Mysore Coffee Processing Co.-opt. Society Ltd., Mysore.	4838	3851	4885
9. Mysore Coffee Curing Works Ltd., Chikmagalur.	2984	2516	5823
10. Chamundi Curing Works, Chikmagalur	4607	3685	5348
11. Malenadu Planters Coffee Curing Works, Chikmangalur	4939	4685	6004
12. Kothari Coffee Curing Works, Hassan	6985	7024	8015
13. Bharathi Coffee Curing Works, Hassan	4648	6184	6505
14. Hassan Coffee Curing Works, Hassan	3972	4031	4864
15. Planters Coffee Curing Works, Hassan	2795	3511	4245
16. Chamarti Curing Works, Mysore	6167	5457	7656
B. KERALA			
17. Consolidate Coffee Ltd. Tellicherry	6413	4497	5956
18. Perice leslie (India) Ltd., Kozhikode	3943	2902	3950
19. L.R. Rangair & Sons, Kozhikode	4163	2607	4921
20. North Malabar District Cooperative Society Ltd., Kalpetta	2956	1994	2946
21. Vijay Coffee Curing Works, Kalpetta	4315	3059	4404
C. TAMIL NADU			
22. Rahamania Coffee Curing Works Mettupalayam	1419	2109	3412
23. Paulson Coffee Curing Works, Pollachi	725	770	1241

1	2	3	4	5
24.	Thangam Coffee Curing Works, Salem	2370	1394	3218
25.	Shevaroys Planters Coffee Curing Works Salem	285	213	121
26.	Bodinayakanur Farmers Co-operative Sty. Ltd. Bodinayakanur	753	591	494
27.	Pattiveeran patti Coffee Curing Works, Co-opt. Sty. P. Patti	1511	1372	1541
28.	Justin Lenard Coffee Curing Works, Pattiveeranpatti	1282	1536	1423
29.	Joseph Coffee Curing Works, Pattiveeranpatti	1304	1649	1737
30.	Yercaude Coffee Curihg Works, Salem	357	361	268
31.	Pierce Leslie (India) Ltd. Coimbatore.	3436	2927	2870

3.70 The curing firms also function as pool agents of the Board for a variety of services besides curing such as receiving and storing surplus pool coffee and making payments to growers from funds provided by the Board. The remuneration payable to the agents for curing and agency functions in each season is fixed by the Board with reference to the cost study conducted by the Cost Accounts Officer deputed by Government. The Audit para has pointed out that during 1973-74 to 1977-78, agency remuneration amounting to Rs. 245.27 lakhs in all was paid by the Board to the pool agents. It was noticed in audit that for the seasons 1974-75 to 1975-76 and 1976-77 to 1977-78, the Cost Accounts Officer had recommended remuneration of Rs. 213 and Rs. 226 per tonne whereas the Board fixed it at Rs. 245 and Rs. 282 per tonne respectively.

3.71 Analysing the reasons for increased rates allowed to the curers, the Audit para points out that the Coffee Board allowed a return on capital at the rate of 19 per cent plus Rs. 7.75 per tonne towards bonus for the seasons 1974-75 to 1975-76 in disregard of the recommendation of the Cost Accounts Ocer for a return of 12½ per cent including bonus resulting in excess payment to the tune of Rs. 27.03 lakhs for 1976-77 and 1977-78 seasons. The Committee wanted to be apprised of the basis of working out the bonus payable to the curing agents. The Ministry of Commerce have stated:

> "The bonus @ Rs. 7.75 per tonne included in the remuneration payable to Curing Agents refers to the bonus payable by them to their employees. On the basis of the actual wages and salary of Rs. 89.50 at 1972-73 rates paid by the Curing Agents the weighted average increase of 24 per cent was adopted by the Cost Accounts Officer of Government of India, Ministry

of Finance towards escalation and the amount was determined at Rs. 111 per tonne. Wages and salaries include items like O.T.A., H.R.A. etc. which are not to be counted while calculating bonus. Similarly, contract, labourers engaged through outsiders are not eligible for bonus and gratuity. While gratuity at 4 per cent is not payable for the first five years, temporary workers not entitled for P.F. are not eligible for gratuity also. Considering these aspects, only 9 per cent of the wages and salaries (7 per cent towards bonus and 2 per cent towards gratuity) has been reckoned by the Cost Accounts Officer for estimates. This worked out to Rs. 10 comprising Rs. 7.75 towards bonus and Rs. 2.25 towards gratuity.

The rates payable to curers including rate of return, bonus etc. were arrived at by the Sub-Committee of the Marketing Committee after negotiations with Curing Agents in which Cost Accounts Officer of Ministry of Finance also participated. The rates so arrived at were considered reasonable."

3.72 The Audit para further points out that the Board made additional payments of Rs. 34.87 lakhs to the agents for the seasons 1976-77 and 1977-78 by allowing interest at 12 per cent of the borrowings irrespective of the actuals. The Board further paid rehabilitation allowance at Rs. 5 per tonne in each of the seasons 1976-77 and 1977-78 against actual purchase of machinery (total payment involved Rs. 6.33 lakhs) whereas the Cost Accounts Officer held this inadmissible as the fair rate of return already provided to the curers was intended to cover cost of purchase of machinery as well.

3.73 Giving reasons for allowing higher rate of interest on borrowings and payment of rehabilitation allowance of Rs. 5/- per tonne to the curers, the Ministry of Commerce have stated in a note:

"According to para 12 of the Report of the Cost Accounts Officer No. 5776 dated 13th June, 1977, the borrowings by the Curing Establishments during the preceding 3 years were as below:

Rs. 198.87 lakhs

Rs. 216.98 lakhs

Rs. 207.88 lakhs

Working out to an average Rs. 207.91 lakhs, this worked out to; Rs. 319.82 per tonne of coffee handled (65008 tonnes).

The Cost Accounts Officer worked out the interest rate on the basis of quantum of interest which the curing establishments had paid in the preceding years. However, curing charges are

fixed prospectively in respect of coffee to be cured during the seasons to come. Therefore, the curing charges have to take cognizance of and provide for the interest rates which were expected to prevail during the period when services were to be rendered in the coming season, rather than the interest amounts actually paid in the past. The Sub-Committee considered this aspect and decided to allow 12 per cent interest on Rs. 319.82 which worked out to Rs. 38.38 per tonne against Rs. 22.61 arrived at by the Cost Accounts Officer on the basis of the actual interest paid by the curing establishments in the preceding years.

The Coffee Board is not in agreement with the conclusion drawn by Audit that over payments to the extent of Rs. 27.03 lakhs towards higher percentage of return on capital, Rs. 34.83 lakhs towards higher percentage of interest on borrowings and Rs. 6.33 lakhs towards rehabilitation were made for the following reasons;

1. The Cost Accounts Officers' report and/or recommendations are not to be considered as an award binding on either the Coffee Board or the Curers.

(2) The Cost Accounts Officer's report could only be recommendatory and at best serve only as a basis for negotiation of the rates of remuneration payable to the curers for the services rendered by them.

The rates were finally agreed upon by negotiation between the curers and the Sub-Committee of the Marketing Committee of the Board. During these negotiations payment at rates higher than that recommended by the Cost Accounts Officer was examined in greater detail and after studying the pros and cons, the increased rates were found to be reasonable and accepted by both the parties to the negotiation. Neither the Marketing Committee nor the Board can force acceptance by the curing industry of a rate considered to be unreasonable.

In this connection, it may also be mentioned that the Cost Accounts Officer also participated in the deliberations of the Sub-Committee which arrived at the increased rates after negotiations.

As regards issue of guidelines to the Board, Government is of the view that as the Coffee Board is fully competent to negotiate and finalise the rates payable to the curers, no guidelines from Government are called for."

3.74 Clarifying the position further in this regard, the Chairman, Coffee Board stated in evidence:

"The total installed capacity is 1.12 lakh tonnes for curing coffee whereas the requirement is 1.50 lakh tonnes. When there is so much of gap, the private party is in a position to say that they need something more to be paid to them. If we have to enter into an agreement, the Cost Accounts Branch instead of starting negotiations, should give the basis on which the negotiations could be started; and it was on the basis of that the negotiations were carried out and certain rates were agreed to compared to the realisation for the coffee which is of the order of about Rs. 9,000—10,000 per tonne and even more for export auction, the amount paid to the curing works is only of the order of Rs. 216 per tonne. The difference between the rates recommended by the Cost Accounts Officer & those actually agreed upon is hardly of Rs. 20—30; and this has been essentially on account of supply and demand."

3.77 To a querry whether in such circumstances the cost accounts exercise done once in two years was at all necessary, the witness explained.

"The Cost Accounts Officer's report is very necessary for us because there should be a basis on which the Sub-Committee of the marketing committee should negotiate with the private couring work.

Private curing works may be asking for the moon and the Coffee Board should have a basis to argue with them and to bring them down to reality and to agree to a limited increase wherever there is some justification. Our experience shows that the prices fixed by the Marketing Committee are all right. They know the working of every curing works, they know where there is any need for increase and where there is a knowledgeable grower who is well aware of the working of the curing works and the interests of the growers and he heads the committee. They conduct the negotiations.

The rates are to be settled by negotiation. Increases, which are genuine are allowed by the Committee in marginal cases. Another thing is we have to depend on them. If any one of them does not accept our procedure, etc., to that extent we have a short capacity, and we cannot go ahead with curing. Disposal cannot be there unless there is curing. That is why we have several sittings with the curers till we get a justifiable rate."

3.76. Regarding payment of higher interest rate on borrowings and the methodology followed in determining the same for the following season, the Director of Finance, Coffee Board, stated in evidence:

> "The interest rate was based on historical data. That means, the CAO takes the previous year's or the previous two years' data of interest paid by them, the total amount of borrowing, the debt equity ratio on that borrowing and the interest thereon are considered. This particular rate of interest worked out was applied for the future borrowings in the costing study. What the curers said was that the interest rates worked out are on the basis of the past borrowing. And for the future, they have to borrow from the banks at the rate of interest prevalent at the rate desired by the CAO. On that basis the Committee increased the rate of interest. At that time it was 12 per cent. So we gave 12 per cent."

3.77 Explaining the need for payment of rehabilitation allowance to the curers, the Chairman, Coffee Board stated:

> "Rehabilitation allowance is closely connected with the policy decision taken by the Marketing Committee. All our curing works are very old. Some of them are 30 to 35 years old. Finances are not available for modernising them. They are therefore not in a mood to modernise them because the remuneration is not attractive. The Marketing Committee took conscious decision that they will allow a rehabilitation allowance of Rs. 5/- but this allowance is not paid automatically to them. It is calculated and paid when the curer purchases a new set of machinery or new equipment, and the vouchers etc., are sent to the Coffee Board duly certified by a Chartered Accountant. On that basis we release the amount to the curer."

3.78 The Committee were informed that almost all the above curing establishments except the one at Hassan, were very old. It was therefore necessary to increase the interst rate as an incentive to modernise.

3.79 The Committee desired to know (i) the total requirement of curing capacity in the country, (ii) the capacity actually available (Statewise) and (iii) the steps taken or contemplated by the Coffee Board to meet the requirements. The information furnished by the Ministry of Commerce is as shown below:—

> 'The total requirement of curing capacity in the country is of the order of processing coffee of a total production of 1,50,000 tonnes and more.

This requirement is based on recent production figures of coffee which have been as follows since 1977/78:—

	Arabica	*Robusta*	*Total*
		(in tonnes)	
1977/78	58896	66245	1,25.141
1978/79	65114	45374	1,10,483
1979/80	71300	78400	1,49,700
1980/81	60758	57146	1,17,904
1981/82	82000	78000	1,60,000

Licensed Curing Capacity available (Statewise) as on 31-1-82 in Metric tonnes

Karnataka	87,997.50*
Tamilnadu	10,958.75*
Kerala	15,180.00
Total	1,14,136.25

*includes 2 new Curing Works of 2000 tonnes capacity each licensed in December, 1981.

**includes Additional capacity of 1000 tonnes licensed in an existing curing works in 1981.

Action has been taken by the Board to encourage investment in Curing Works and 14 Letters of Intent have been issued for setting up Curing Works for a total capacity of 75,000 tonnes. Two holders of Letters of Intent out of a total number of 14 have already established their Curing Works in Karnataka and have started curing operations in December, 1981. Some of the holders of Letter of Intent are expected to put up their establishments in a short time. Existing Curing Works are also encouraged to increase their capacity. Statewise break up of the proposed installation of capacity is as follows:

Karnataka—72,000 M.T.*

Kerala—3,000 M.T.

*Out of this, four thousand capacity is already established and has been licensed for operation.

Apart from this, Andhra Pradesh Forest Development Corporation proposes to set up a Curing Works of 1000 M.T. capacity and Assam Plantation Crop Development Corporation proposes to set up a Curing Works of 1000 M.T. Capacity.

The Board is actively helping these bodies in installing these Curing capacities by providing its technical advice.

Additionally the Board has also submitted a Project for setting up modern curing works under Public/Joint Sector to the Government of India under its Sixth Plan (1980—85) programmes. The proposed curing capacity of the Joint Sector/Public Sector project is expected to be 10,0000 tonnes in traditional areas and 5,000 tonnes in Non-traditional areas. Preliminary discussions with State agencies in Kerala, Karnataka, Andhra Pradesh and Assam have been initiated for establishment of curing works in Public/Joint Sector in these States."

3.80 According to pool agency agreements, the pool agents are responsible to store safely under proper storage conditions all the coffee belonging to the Board. The Committee enquired about the standard of storage required of curing agents acting as pool agents and on what basis it was arrived at. The information furnished by the Ministry of Commerce is given below:

"As per the decision of the Board at its meeting held on 8th September, 1971 a Technical Committee was constituted to determine the standard of storage required by curing agents. The Committee in its report issued during April 1972 decided to adopt the report of the Indian Standards Institution in regard to standards for structures after its receipt and also determined the following standards for purpose of storing:

Un-cured coffee	2.322 sq. Metres per tonne
Cured coffee	0.929 sq. Metres per tonne

(This area includes provision for free space round the stacks, gangways and doorways).

The Indian Standards Institution has prescribed during December 1971 the standards to be adopted for construction of Coffee Seed Storage Structures."

3.81 Asked whether the curing establishments had adequate storage/godown facilities and if not, what the requirements were and what action was being taken to augment such facilities, the Ministry of Commerce have stated:

"About 84 per cent of the Pool Agents are having adequate godown facilities. In respect of balance 16 per cent the storage facilities are slightly inadequate and instructions have been issued to the concerned to increase their storage capacity. The Quality Committee in its 49th meeting held on

5-1-81 has taken the decision to provide financial assistance in the form of soft loans for construction of godowns and for increasing drying yard area."

3.82. The curing firms also function as pool agents of the Coffee Board for a variety of services besides curing, such as receiving and storing surplus pool coffee and making payments to growers from funds provided by the Board. The remuneration payable to the agents for curing and agency functions in each season is fixed by the Board with reference to the cost study conducted by the Cost Accounts Officer deputed by Government. Audit have pointed out that for the seasons 1974-75 to 1975-76 and 1976-77 to 1977-78 the Board made payments to the curing firms at the rate of Rs. 245 and Rs. 282 per tonne respectively against the recommended remuneration of Rs. 213 and Rs. 266 per tonne respectively. Analysing the reasons for the increased rates Audit have pointed out that for the seasons 1974-75 to 1975-76 the Board allowed a return on capital at 19 per cent plus Rs. 7.75 per tonne towards bonus as against a return of 12-1/2 per cent including bonus recommended by the Cost Accounts Officer. The consequential excess payments worked out to Rs. 27.03 lakhs for 1976-77 and 1977-78 seasons. Further, excess payment to the tune of Rs. 34.87 lakhs was made towards higher percentage of interest on borrowings for the seasons 1976-77 and 1977-78. In addition, the Board paid rehabilitation allowance to the tune of Rs. 6.33 lakhs at a rate of Rs. 5/- per tonne during the above seasons against actual purchase of machinery.

3.83. The Committee have been informed that the Cost Accounts Officer's recommendations are not to be considered as an award binding on either the Coffee Board or the curers. At best, they serve only as a basis for negotiating the rates of remuneration payable to the curers for the services rendered by them. These have to be finally agreed upon through negotiation between the curers and the sub-committee of the Marketing Committee of the Board. The Committee are of the opinion that the whole position as narrated is rather unsatisfactory.

3.84. The Committee find that as on 31st January, 1982 the total licensed curing capacity was of the order of 1.14 lakh metric tonnes including 2,000 tonnes additional capacity licensed in December, 1981 in favour of two new curing works and additional capacity of 1,000 tonnes in an existing curing works. Compared to the total production of the order of 1.60 lakh tonnes estimated in 1981-82 the available capacity was short of requirements by about 0.46 lakh tonnes. It was conceded in evidence that on account of the gap between the supply and demand, the curing works were in a position to dictate terms to the Board. The Board is since stated to have taken action to encourage investment in curing works and 14 letters of intent have been issued for a total capacity of 75,000 tonnes. The

Board are also stated to have submitted a project for setting up modern curing works in public/joint sector to the Government of India. The proposed curing capacity in the public/joint sector is expected to be 10,000 tonnes in traditional areas and 5,000 tonnes in non-traditional areas.

3.85. In their 130th Report (Fifth Lok Sabha), the Public Accounts Committee had recommended that pool agency and curing functions should be taken over, forthwith. The Ministry had informed the Committee (November, 1974):

> "It may not be advisable to separate curing and pool agency functions. Taking over of the curing establishments will amount to nationalisation of the coffee curing industry. Even if Government decides to nationalise, it will have to be done in a phased manner. The Coffee Board have no reserves of its own and the entire compensation will have to be met from out of the Consolidated Fund of India. Apart from the present economic situation of the country, whether the nationalisation is necessary has to be gone into....."

3.86. Reiterating the recommendation, the Committee had, in para 1.30 of the 139th Report (Fifth Lok Sabha) observed that the matter should be examined expeditiously, in all its aspects, and a detailed report furnished to them. Apparently, there has been no further consideration of the question by Government.

3.87. The Committee consider that the Coffee Board and the Plantation Crops Development Corporations in the States directly involved in coffee production, collection, etc. should play a more positive role in the matter of curing of coffee instead of allowing it to be handled by private agencies which are in a position to dictate terms to the Coffee Board. As most of the coffee curing works are very old and are saddled with outdated plant and machinery, their cost of operation is bound to be very high. The Committee therefore urge that the proposal to set up curing works in the public sector should be pursued vigorously with the ultimate object of taking over the entire curing function in a phased manner. The feasibility of setting up cooperatives of growers for undertaking curing work may also be examined. In non-traditional areas the function may be entrusted to the Plantation Crops Development Corporations or other State agencies.

3.88. The Committee find that at least 16 per cent of the pool agents do not have adequate godown facilities. The Committee urge that this deficiency should be made good without further loss of time, preferably by the Board.

(b) Perspective Plan for increasing production/consumption of coffee

3.89. The Committee enquired about the strategic perspective of the Coffee Board with regard to increasing the production and consumption of coffee in the country and the steps being taken in this regard. The Ministry of Commerce have stated in a note:

'**Production:** Coffee being a perennial plantation crop involving a gestation period of 5 years before reaching a productive stage, it was felt necessary to have a long term expansion programme to meet the demands for coffee by the turn of the century (2000 A.D.). Accordingly, the Board in collaboration with the National Council of Applied Economic Research prepared a Prespective Plan during 1976. This plan estimated that the demand for coffee by 2000 A.D. would be in the region of 2 lakh tonnes. In order to achieve this production by that period, the Perspective Plan envisaged increasing the productivity level of existing small holdings and low yielding pockets and expansion of coffee to an extent of 1,30,000 hectares by 1993-94, of which 72,000 hectares in the Non-Traditional states was found agroclimatically suitable for coffee and the remaining 58,000 hectares in the traditional coffee estates. During the Sixth Plan period, it is programmed to achieve an expansion of 38,400 hectares; 15,500 hectares in the traditional areas and 22,900 hectares in the non-traditional areas as per details indicated below:

	1980-81	1981-82	1982-83	1983-84	1984-85	Total
Total for traditional areas	2400	3200	3200	3300	3400	15500
Total for non-traditional areas .	4000	5200	5400	4150	4150	22900
Grand Total . .	6400	8400	8600	7450	7550	38400

The Planning Commission and Government of India approved the above Perspective Plan and the targets for Sixth Plan and issued instructions to the concerned State Governments to establish corporations exclusively for this purpose besides Public and Joint Sectors. Different States have already taken action in this regard.

The productivity level of existing small coffee holdings is being increased by the Board through its various Research,, Extension, Developmental loan credit and subsidy programmes and other plan programmes providing the required infrastructural support to the small growers and low yielding large grower sectors.

Government have allotted Rs. 47 crores during the Sixth Plan (1980—85) period for this purpose.

Consumption: Detailed programmes have been planned for promotion of internal consumption of coffee. Taking into consideration an estimated coffee production by the end of the 6th Plan period as around 1,60,000 tonnes and a consequent availability of 65,000 tonnes for internal consumption, an increase of 15,000 tonnes by the end of 6th Plan from the present level of around 50,000 tonnes of internal consumption is the target aimed at. This will need special efforts since the present level of increase is only 2,000 tonnes per year.

To work out effective programmes of market promotion a Joint Committee of the Marketing Committee/Propaganda Committee went into all aspects of coffee consumption in India. The Coffee Board has also commissioned the services of an expert agency for giving recommendations for promotional strategies. Finally, the Joint Committee and the Board considered it most desirable to start coffee promotional centres in a phased manner in 12 selected urban and industrial centres of the country, with each centre having the following activities:

(a) conversion of raw coffee into pure quality ground coffee and its distribution;

(b) dissemination of right techniques of coffee roasting, grinding and brewing and also sale of domestic coffee filters;

(c) service of good quality liquid coffee from a coffee bar attached to each centre;

(d) demonstration and publicity programmes around the centre in various localities.

Each centre would roast, grind and manufacture 240 tonnes of coffee annually. The above market promotion proposals drawn up under the 6th Plan have been cleared by the Planning Commission and detailed project proposals have been submitted to the Government for approval. After Government approval is obtained, the project proposals will be implemented."

3.90 During evidence, the Committee enquired about the progress in implementation of the perspective plan for increasing the production/consumption of coffee in the country. The Chairman, Coffee Board stated:

"The Coffee Board with the blessings of the Government of India and the Planning Commission took up the preparation of a perspective plan for the development of the coffee industry enunciated in conformity with and in accordance with the projections of supply and demand made in the report of the National Commission on Agriculture. In collaboration with

the National Council of Applied Economic Research we developed a perspective plan keeping in view basically the following:—(1) The supply and demand situation obtaining at the turn of the century. (2) The socio-economic requirements as enunciated in the approach to the Plan and also by the Government of India. (3) The need for enhancing incomes of the backward and the weaker sections among the production classes both in the traditional and non-traditional areas. (4) The development of the backward and hilly tracts of the non-traditional areas. Keeping all these basic objectives enunciated in the approach of the Plan the national perspective plan for coffee development was prepared. Doubling the area by the turn of the century and doubling the production by the turn of the century, earmarking approximately 100,000 for exports and an equal amount for internal consumption within the country by the turn of the century, were our aims. For achieving those we proposed: (1) increasing productivity in the existing traditional areas; and (2) by achieving increased production by expansion of the coffee producing areas in the non-traditional States of the country. We have identified eleven new States in the country where coffee can be grown with adequate economic returns with the possibility of satisfying the various criteria set before us. According to that 72,000 hectares will have to be brought out under plantation in the non-traditional areas and 58,000 hectares will have to be brought about by way of expansion under the traditional areas. We also did a quick survey of the other areas, particularly the North-Eastern area with the assistance of the North-Eastern Council and also the States of Orissa, Andhra Pradesh, Kerala, Karnataka, and Tamil Nadu. Afterwards we also took up a detailed survey of the low yield pockets in the existing traditionally coffee producing areas and after doing that we have projected the increased production to be achieved by way of increased productivity, by increasing the areas etc. After that we went before the Planning Commission and the Government of India and the Planning Commission in right earnest took up the matter with the various State Governments at the level of the Development Commissioners and they wrote to the various State Governments to say that these perspective plans will have to be reduced into the shape of annual plans, five year plans and each State Government in turn will have to make the necessary provision in their Plan projects for taking up this expansion project and from our side we have developed a plan for building up an infrastructure for rendering technical and also the necessary training facilities to the various State

Governments to subserve the purpose of coffee development in the various States in those areas."

He added:

"This perspective plan is broken into Five-Year Plan and Annual Plans, and with reference to the targets fixed for the Fifth and the Sixth Plan, as far as production is concerned, we submit that we are a little ahead of the targets fixed, and with reference to the exports and internal consumption also, we have exceeded the envisaged targets under the fifth Plan and the current Sixth Plan. During the last five years we have expanded production by 80 per cent. The production in 1975-76 stood at 83,892 tonnes and the present level of production is 149,700 tonnes."

3.91 Asked to state the Ministry's views in the matter, the Commerce Secretary stated:—

"We attach great importance to this, next only to Tea. In the next 5 years we are going to increase area and production very much. We will see that the weaker sections get a fair deal. In traditional areas we plan to increase it by 15,000 hectares and in non-traditional, by 22,000 hectares. Necessary monitoring is being done. The strategy is that first of all States should be involved and Coffee Board will take up demonstration plantation followed by extension and training facilities and we feel it will be achieved. Our strategy is to increase the productivity; improve the markets; improve the capacity to buy more and at the same time meet the socio-economic objectives of helping the common man. As far as the financing part is concerned there are six or seven schemes which we have evolved to give credit facilities to growers and from the account which we have received so far we find that the Board is satisfied with the initiative taken by us. So far as internal consumption is concerned we try to see that it does not go beyond 3 per cent increase per annum and so far as exports are concerned we would like to have 5 per cent increase. We have found sometimes we are able to do it quantity-wise and sometimes value-wise. We try to insist that value should be added, for example, instant coffee. In international forums we try to see how we can improve upon the quotas allotted to India and at the same time we are not confining ourselves to quota countires but we have taken up new markets and diversified. Of late USSR has become the leading and biggest buyer of coffee. We feel that if our export drive continues supported by productivity, inputs of technology, finance

and demonstration and extension plantation we are on the right track of achieving the basic things assigned to us. As to the point whether we really help the small cultivator or not you will be happy to know that production of the small growers has increased. If you see the productivity trends our performance has not been bad. On the contrary, productivity has been increasing in the area of small farmers at a higher level than the bigger ones. If you see the distribution of money from the pool funds we find they are able to stand at a comparatively good position. Earlier there was one difficulty. The small farmers when they came and submitted their coffee to the Coffee Board they were at a disadvantage because they gave it in an uncured form and in small quantities. Now, we are trying to see how facilities could be made available to these farmers so that they and the large farmers are at par. Here I would not say we have achieved our ambition but that is being kept in view and that is what are trying to achieve."

3.92 Asked whether the question of having a separate Development Fund for encouraging the production of coffee had been examined by the Ministry, the Commerce Secretary replied:

"We are awaiting the Board's views on this particular question. I understand that this is under the consideration of the Board. On the receipt of their reactions to it, we will move further in the matter."

The Chairman, Coffee Board added:

"This is one of the crucial items included for consideration by the High Power Committee to report to the Board."

3.93 In their study of the Indian coffee industry, the Indian Institute of Management, Ahmedabad have observed*:—

"The experiences of the Coffee Board in promoting higher production through bringing new areas under cultivation in traditional states has not altogether been a very happy one. Progress has been relatively slow, yields have not been up to expectations and the expected physical areas have not been brought under cultivation. This is despite the fact that representatives of the traditional coffee growing states are members of the Coffee Board. It would therefore appear that while such schemes and proposals are intrinsically sound in their conception, their implementation calls for a high degree of enterprise, conviction, and long term interest.

* * * * *

*Not Vetted in Audit.

"...the Coffee Board could play a direct role in promoting and establishing a cooperative coffee plantation in one of the new areas. The Board's role would be one of providing leadership, organizational resources, and technical help. The Board, through its existing or new contracts could identify key social and political workers who would propagate the idea of a co-operative endeavour among landless and unemployed persons. The Coffee Board can even contribute substantially to the share capital of such a cooperative endeavour. The envisaged role is very similar to that played by AMUL, the Kaira District Cooperative Milk Producers' Union Limited in promoting other milk cooperatives in Gujarat State.

"....In our view,...the cooperative route, appears to be the most promising one in terms of the Coffee Board's objectives of increasing coffee production in new areas in traditional States. The Board's investment in the share capital provides a reasonable degree of control and responsibility for effective implementation."

Coffee Expansion Scheme in non-traditional areas

3.94 Under a coffee expansion scheme launched in the Sixth Plan, the area under cultivation in traditional and non-traditional areas had been proposed to be raised from 1.86 lakh hectares in 1976-77 to 3 lakh hectares and the yield from 1.20 lakh tonnes in 1976-77 to 2 lakh tonnes by 2000 A.D. The Audit para has pointed out that as against the annual target of 2800 hectares fixed for non-traditional areas and 1600 hectares for traditional areas for the year 1978-79, the actual achievements were 102.50 hectares and 4691 hectares respectively. Thus the development had not been according to plan.

3.95 The Ministry of Commerce have furnished the following statement showing the amounts spent by the Board for development of Coffee (research, extension and expansion) in non-traditional areas in the States of Andhra Pradesh, Orissa, Assam, Nagaland, Manipur, Arunachal Pradesh and Meghalaya during each of the years 1978-79 to 1980-81:

(Rs. in lakhs)

	1978-79	1979-80	1980-81
(a) Research	2·54	7·65	12·03
(b) Extension	7·29	12·38	17·50
(c) Development loans	—	—	0·19
(d) Development (Expansion) subsidy	—	2·13	5·16
Total outlay spent on infrastructural support	9·83	22·16	34·88

3.96 The Ministry have added that apart from the amount spent by the Board the State Governments have invested their own funds on raising the coffee plantations. However, the information about their outlays is not available with the Board.

The Coffee Board had intimated Audit in June 1980 that on account of delay in setting up of joint sector Corporations for development of coffee by the State Governments, shortfall had occurred in non-traditional areas. To a question whether the Board had then, taken up the question of setting up of such Corporations with the concerned State Governments, the Ministry of Commerce replied in the affirmative and added:

> "All the concerned State Governments have identified the agencies charged with the development of coffee in these areas.
>
> At the instance of the Board the Joint Sector Corporations have been established in the following States:

(i)	Andhra Pradesh	Andhra Pradesh Forest Development Corporation and the Girijan Cooperative Corporation.
(ii)	Assam	Assam Plantation Crops Development Corporation.
(iii)	Nagaland	Nagaland plantation Crops Development Corporation.
(iv)	Manipur	Manipur Tribal Development Corporation.
(v)	Arunachal Pradesh	Arunachal Pradesh Forest Corporation.
(vi)	Orissa	Orissa Forest Corporation.
(vii)	Kerala	Plantation Corporation of Kerala.
(viii)	Karnataka	Karnataka Forest Development Corporation.

> These Corporations have prepared detailed Project reports and submitted to the State Governments concerned and also to the Agricultural Refinance & Development for providing necessary finances.
>
> 3. In other States *viz.*, Mizoram, Tripura, Sikkim, Madhya Pradesh, Maharashtra and Andaman & Nicobar Islands, the Departments of Agriculture/Forest have taken up the development activities."

3.97 Audit have pointed out that in 1979-80 Government introduced a subsidy scheme for development of coffee mainly in non-traditional areas. However, against the budget provision (1979-80) of Rs. 28 lakhs for non-traditional areas and Rs. 16 lakhs for traditional areas, the Board had disbursed Rs. 44.83 lakhs in traditional areas and only Rs. 3.12 lakhs in non-traditional areas. Explaining the reasons for the heavy shortfall in utilisation of the budgetary allocation for non-traditional areas, the Chairman, Coffee Board stated in evidence:

> "We have got over the preliminary difficulties. The Planning Commission has communicated its advice to various State Governments. State Governments have been advised to set up joint

agencies and governmental agencies to take up such plantation programmes. This cannot come under the private aegis. Land cannot be alienated. Andhra Pradesh Forest Development Corporation took up this work. Orissa took up this. Assam Corporation is doing it from 1975. Nagaland is doing from 1980. Manipur is doing from 1981. Arunachal Pradesh is doing from 1980. We are working with them in close collaboration. Both of us are sharing the responsibility of coordination. We provide the necessary technical support and financial assistance and also in preparing project reports, doing surveys, setting up demonstration farms and things like that .. Now the position is heartening. By 1980-81 the area was 7273 hectares. The area that came after the perspective plan preparation was 5984 hectares. The projected areas which come under various financial assistance schemes are 17543 hectares. The total works out to 24,000 hectares. From the overall point of view the basic plan objectives are being implemented by various State Governments. No State Government could independently set up any particular target for implementation because States cannot find the resources; they cannot provide this within their budgets. Financial institutions have not taken up final decision about assisting these States. Regarding earmarking funds for Tribal Development and Scheduled Caste development, no formal decision was taken to earmark the money. This is a 100 tribal development scheme."

3.98 Asked whether it was the view of the Coffee Board and the Ministry of Commerce that it should be a wholly tribal development scheme, the witness deposed:

"I am only saying that our entire coffee programme is 100 per cent development of tribals and weaker sections; nothing else; because, the beneficiaries are only tribals and nobody else. Therefore, the State Governments are approaching the Central Government; because, they do not have the equity money to proceed with. In the component plan more than 80 per cent of the benefit flows to these people under the Prime Minister's formula. If one-third resources are found by way of equity through this scheme two-thirds of the funds will come from the banks by way of loan. But if they do not have the equity money, the loan is not available."

He added:

".... the State Governments approach the ARDC for finance for various schemes. But they have to provide their own equity. Unless the equity is available in the State budget, they cannot

get further assistance. The Planning Commission have advised the State Governments to provide this money in the annual Plan and come individually for clearance. While processing these annual plans they have encountered this difficulty. So, it has taken this much time. Once the initial problems are sorted out and the first plantations started, in another five years time the plantations will come according to the projected schedule. If this were done in the private sector, the targets would have been doubled."

3.99 Asked why the Government did not allow private people to develop coffee estates in the non-traditional areas, the witness deposed:

"That is the existing law; where the land belongs to the government, the Council or the tribals, it cannot be leased out without the approval of the Government of India. Therefore, they are not able to give these lands to others. Several people have tried it, but not succeeded. As a via media, we have suggested to the Planning Commission that the joint sector idea should be tried."

3.100 In a reply to a further question, the Chairman, Coffee Board stated:

"As regards our planning for expansion of coffee in the non-traditional areas, I have already submitted that in spite of the fact that this is a difficult programme, everything depends entirely upon the State Goverenments' implementation within the budgetary constraints etc. The area so far brought under plantation compared to other plantations in the non-traditional areas is very substantial—it goes upto over 7,000 hectares. During the last four or five years the Planning Commission and the Government have not yet been able to formalise the annual targets for the increased production. The problem faced is that in almost all the States, the land cannot be alienated to any outside agency. The land will have to be developed only by the governmental agency or by the tribals themselves who are residents in that area.

That is how the State Government has advised the Planning Commission to come forward with a corporation type of organisation to take up the plantations. Most of the States have so far started their corporations for that purpose. There are about sixteen Corporations. They have prepared the projects and submitted the same to the Agricultural Re-finance Development Corporation and they are awaiting the clearance of these projects for rendering the necessary financial assistance. They are also approaching the Government of India.

There are seven States and then there are States in North-eastern Council and then Orissa and Andhra Pradesh. These are the non-traditional areas. Madhya Pradesh has also joined; West Bengal is also joining by the end of this year. Most of these States have prepared their project reports for obtaining the necessary finances. The problem is in regard to availability of expertise to help them. We have developed the man-power development programme which is under the active consideration of the Government as also of the Planning Commission.

It is to be implemented in a three-tier method. One is to train the executives in collaboration with universities and the other is to train the supervisory staff in research stations and third is to give practical training at the level of the coffee demonstration farms. A few of them belonging to these categories are already earmarked for the training. For this, man-power is required for the next five year plan and the subsequent plans that are to follow. Another problem faced is in regard to labour. In all the tribal areas, labour is scare as you know. And, outside labour cannot be brought into these areas.

So, some kind of a labour for this type of plantation programme will have to be developed in these areas, and we are seeking the assistance of some of the advanced producing countries to help us in bringing about some kind of mechanisation method in taking up plantation programme."

Manpower Development Programme

3.101 Dwelling on the manpower development programme drawn up by the Coffee Board and the measures taken in pursuance thereof, the Ministry of Commerce have stated:

".....Based on manpower requirements of 5 Managers, 16 Field Supervisors, 64 labour Maistries and 2250 labour force for 1000 ha. of coffee plantations, the expansion programme during VI Plan period requires 215 Managers, 650 Supervisory field staff, 2500 labour Maistries and 1,25,00 labourers. The various State Governments particularly in the non-traditional areas have been constarined in their expansion programme for want of skilled manpower. As coffee cultivation is of a complex nature, development of manpower at different levels is an essential pre-requisite factor for succesful coffee expansion.

To implement the programme, during the VI Plan period a 3 level scheme for the development of manpower has been proposed by the Board in the following manner:

(1) *Collaboration with the Universities*: The Board has proposed to establish training facilities in the Universities located near plantation areas. The training would consist of imparting basic perennial crop technology with particular reference to coffee plantations. The study shall include

planting, execution, appraisal and analysis of farm management in coffee plantations. The programme will also include financial management training of coffee plantations. It is proposed to establish training facilities in selected Universities in traditional and non-traditional areas by introduction of a two years degree course and one year post-graduate diploma course. The outlay under this programme for the VI Plan has been proposed at Rs. 57 lakhs.

(2) *Training for Supervisory levels*: The training facilities for supervisory personnel will be developed at 4 Regional Research Stations of the Board which are located at Chettalli in Karnataka; Kalpetta in Kerala; Chintapalli in Andhra Pradesh and the proposed Research Station in Diphu in Assam. Each Regional Research Station will impart training to 18 to 20 supervisors per batch with two batches per year. An outlay of Rs. 12.5 lakhs has been proposed for installing training facilities at four Regional Research Stations.

(3) *Training for Maistries at Coffee Demonstration Farms*: The labour Maistries who will handle labourers in the coffee plantations are proposed to be trained in all the practical aspects of coffee plantations at 15 Coffee Demonstration Farms of the Board located in traditional and non-traditional areas. Special priority will be given to tribal youths and small farmers, who are coffee planters or who possess land fit for coffee. Each Coffee Demonstration Farm will train 40 labour Maistries and small farmers per year totalling to 1920 trainees during the VI Plan period. The training programme at Coffee Demonstration Farms will require an outlay of Rs. 95.65 lakhs.

The Manpower Development Programme has been submitted to Government of India as a Plan project with a total outlay of Rs. 167.15 lakhs during June 1981 for administrative clearance which is under active consideration of Government. Preliminary work like liaison with the Universities and listing of prospective trainees has been started."

3.102. The Committee wanted to know what was the yield in demonstration farms. The Chairman, Coffee Board stated:

"We will have to wait for another two years to study the yield. We have started training programmes for new States. The expansion programmes are going on well in the non-traditional areas. By 1980-81 the total area to be brought under plantation in the non-traditional area is 7,273 hectares."

3.103 To a question how it was ensured that the right kind of technical skill was actually imparted to the lowest rung of the cultivators engaged in coffee plantations, the witness deposed:

> "Tribal cultivators are there; they are all being individually contacted. Our Technical Officers are always at it; and they are available right on the spot; simultaneous development of various needed 'Demonstration Farms' are also being undertaken."

3.104 On being pointed out that previously, coffee plantations, by and large, were done by the Soil Conservation Department, the witness stated:

> "You are right. Now the position has changed. Many tribal people are associated. The main thing is Finance. Finance side is being looked into by the Agricultural Re-finance and Development Corporation. ARDC are considering common norms to be adopted by the non-traditional States. Once that is finalised, plantation work will start in full swing. The main difficulty is that the States are not providing adequate funds in their Annual Budgets. If they provide in the Annual Budgets, sometimes you find, it is over-shooting the ceiling. They are not able to do it. That is a real problem. What we are doing is that we are providing total technical support; we provide extension and research; we provide training. We don't come into the picture, as far as Finance is concerned. We only give the Government of India's subsidy under the normal expansion programme."

3.105 The perspective plan for production of coffee drawn up by the Coffee Board in collaboration with the National Council of Applied Economic Research during 1976 envisages the demand for coffee to be in the region of 2 lakh tonnes by the end of this century. The demand is proposed to be met by expansion of the coffee producing areas to an extent of 1.3 lakh hectares by 1993-94, of which 72,000 hectares would be brought under coffee cultivation in the non-traditional States and the rest in the traditional coffee growing areas. The Committee have been informed that so far as the Sixth Plan is concerned, it is programmed to achieve an expansion of 38,400 hectares, of which 22,900 hectares would be brought under coffee cultivation in the non-traditional areas.

3.106 The Audit para has pointed out that as against the annual target of 2,800 hectares fixed for non-traditional areas and 1,600 hectares for traditional areas for the year 1978-79 the actual achievement was 102.5 hectares and 4,691 hectares respectively. The development has therefore been much below the expectations in the non-traditional areas.

3.107 In their study of the Indian coffee industry, the Indian Institute of Management, Ahmedabad have also pointed out (Para 3.93) that the experience of the Coffee Board in promoting higher production through

bringing new areas under cultivation in traditional States has been relatively slow and yields have not been to the expectations. The study has further pointed out that while the schemes in this regard are intrinsically sound in their conception, the implementation calls for a high degree of expertise, conviction, proper orientation and long term interest. According to the study, the cooperative route appears to be the most promising one in terms of Coffee Board's objectives of increasing coffee production in new areas in the traditional States. The Committee had in their 130th Report (Fifth Lok Sabha) recommended that the Board should, with the active cooperation of the State Governments encourage setting up of cooperatives of small growers so that they may have the benefit of machinery and equipment which individual small growers cannot afford to purchase. The Committee would urge that the Coffee Board should play a more active role in promoting and establishing cooperative coffee plantations in the traditonal States by providing the necessary share capital, organizational resources and technical skill|manpower. The Committee would like the Coffee Board to come out with specific proposals in this regard without loss of time.

3.108 So far as extension of coffee plantations in non-traditional States is concerned, the Committee find that the Coffee Board have been pursuing with the State Governments the question of setting up of joint sector corporations. The States of Andhra Pradesh, Assam, Nagaland, Manipur, Arunachal Pradesh, Orissa, Kerala and Karnataka have so far set up forest|plantations development corporations charged with the responsibility of promotion of coffee in the respective States. The other non-traditional States, viz. Mizoram, Tripura, Sikkim, Madhya Pradesh, Maharashtra and Andaman and Nicobar Islands have taken up developmental activities through their own departments of agriculture|forests. The delay in setting up the corporations is stated to be due to the inability of the State Governments to raise 1|3rd of the resources by way of equity so as to avail the facility of bank loans. The Committee find that so far only 7,000 hectares out of a total of 22,900 hectares proposed to be brought under coffee cultivation in the non-traditional areas during the Sixth Plan, have been brought under coffee plantations. The Committee also find that under the subsidy scheme introduced by the Coffee Board for development of coffee mainly in non-traditional areas, a sum of Rs. 3.12 lakhs only was spent as against the budgetary provision of Rs. 28 lakhs in 1979-80. Obviously, the preparatory work required to be done in this regard left much to be desired. Since the entire coffee development programme in the non-traditional areas is a 100 per cent tribal development scheme intended to assist the weaker and backward sections of the society. the Committee urge that schemes in this regard should be drawn up without delay and implemented on a phased basis.

3.109 The Committee desire that the concerned agencies should be actively assisted by the Coffee Board in preparing detailed project reports

and in getting necessary financial assistance therefor from the Agricultural Re-finance Development Corporation.

3.110 As land in the tribal areas cannot be alienated, it is imperative that the idea of setting up joint sector corporations to take up plantation of coffee with the assistance of governmental agencies is pursued actively. Elsewhere in this Report, the Committee have suggested that representatives of the non-traditional States should be given representation on the Coffee Board. The Committee further suggest that the States be pursuaded to have a nominee of the Coffee Board on the Boards of Directors of the State Coffee Corporations and to utilize the technical, managerial and consultancy services of the Coffee Board in making the corporations a success.

3.111 So far as the problem of availability of trained manpower is concerned, the Committee find that the Board have drawn up a three-level scheme for implementation during the Sixth Plan. It is proposed to establish training facilities in selected universities in traditional and non-traditional areas. Training facilities for supervisory personnel are proposed to be developed at 4 regional research stations in Kerala, Karnataka, Andhra Pradesh and Assam. It is also proposed to train labour maistries who will train labourers in the coffee plantations. Special priority would be given to tribal youth and small farmers. The Committee understand that the Manpower Development Programme with a total outlay of Rs. 167.15 lakhs during the Sixth Plan is awaiting administrative clearance of the Government of India. The Committee trust that this would be forthcoming soon so as to enable the Coffee Board to play a leading role in providing technical support, extension and research facilities and in organizing training programmes.

CHAPTER IV

SALES PROMOTION

(a) Expenditure on Propaganda Department

4.1. It is seen from the audit paragraph that the expenditure on the Propaganda Department amounted nearly to Rs. 443.80 lakhs in 1977-78 as against receipts by sale of coffee through that Department amounting to Rs. 477.11 lakhs. At the instance of the Committee, the Chairman, Coffee Board furnished the following figures for the years 1977-78 to 1980-81:

Year	Receipts	Payments/expenditure
	(in lakhs of Rs.)	(in lakhs of Rs.)
1978-79 . .	567·53	528·57
1979-80 . . .	542·12	471·01
1980-81	586·62	519·00

4.2. Asked whether the expenditure on the Propaganda Department was commensurate with the results achieved, and if not, what measures were being taken to curtail the expenditure on this Department and to improve its efficiency, the Chairman, Coffee Board stated:

> "....I cannot comment on this in the sense whether it is commensurate with the results achieved or not. I have to link them up only in a general way. If you take it on the basis of increased consumption that is going on in this country, from that point of view certainly this can be attempted."

4.3. In a further note on the subject the Ministry of Commerce have stated:

> "The main objective and purpose of the Propaganda Department is to promote coffee drinking and coffee consumption. The

fact that this objective has been largely achieved is evidenced by increased domestic consumption of coffee as shown below:

CONSUMPTION OF COFFEE IN INDIA

Calendar Year	Quantity (in tonnes)
1960	30,004
1965	36,850
1970	33,582
1971	37,904
1972	37,452
1973	39,381
1974	37,562
1975	36,880
1976	37,644
1977	44,088
1978	46,028
1979	49,648
1980	47,683
1981	50,000 (Estimated)

Action as noted below has been taken to curtail expenditure and to increase receipts of the department:—

(i) An Expert Committee has been constituted to develop staff norms for the India Coffee Houses and to suggest measures to run the Units without losses.

(ii) Prices of catering items have been revised upwards and are subject to periodical review.

(iii) On the basis of the recommendations of a technical committee, ceiling limits of roasting losses have been fixed and these limits are rigorously enforced."

Promotional strategies

4.4. The Committee enquired about the efforts made by the Coffee Board to popularise coffee in domestic market particularly in North India. The Ministry of Commerce have stated:

"With a view to popularising coffee consumption in the domestic market, the Board has established 29 Indian Coffee Depots, 15

India Coffee Houses and 3 India Coffee Vans over a period of 21 years from 1958 to 1979 in non-traditional areas comprising of Kerala, Maharashtra, Andhra Pradesh, West Bengal, Gujarat, Uttar Pradesh, Madhya Pradesh, Goa, Delhi, Bihar, Orissa, Jammu and Kashmir.

Additionally as an incentive the Board has granted 321 Agencies in the non-traditional areas as on 31-3-1981 for the sale of coffee powder and raw coffee on a commission basis. The Marketing Committee of the Board has taken a decision to increase the consumption of subsidised blend coffee powder in non-traditional areas upto a limit of 60 per cent of the total consumption in the country. Continuous efforts are being made to achieve this targeted consumption level.

The Board has also been continuously conducting demonstrations in the art of brewing coffee at potential places like Ladies' Clubs, Women's Hostels, Industrial Canteens etc. The Board has also been participating in exhibitions in places like Delhi, Shillong, Vizag etc., to make available good coffee in the cup.

As regards the achievement in this regard, it may be mentioned that the total consumption in non-traditional areas has increased from 8,737 tonnes in 1974 to 10,791 tonnes in 1979 accounting for an increaset of 23.5 per cent over years."

4.5. Asked about the steps taken by the Coffee Board to implement the recommendations of the expert agency on promotional strategies, the Chairman, Coffee Board stated in evidence:

"There is a consultancy agency—Clarion Advertising Agency. The main work was done by our own Joint Committee consisting of Members from the Market Committee and Members of the Promotion Committee. This is the real body which applied its mind and went into the whole question of coffee promotion and, in order to help them to prepare a basic paper, we requested this agency to do that study.... Three years ago, a conscious decision was taken that the time had come when we should forge ahead with the expansion of internal consumption because the production was going up very steeply. And, in conformity with the perspective and also the annual plan, there is definitely a percentage of increase. On that basis we wanted to have an assessmnet of the potential and the phased approach to be adopted to achieve the desired objectives. Similarly, for the external promotion also it has been done. For the internal promotion M/s. Clarion who are our advertising agents, were asked to do a study by giving them specific

references. We told them to do that keeping in view the perspective and the annual plan objectives in mind and also keeping in view the method of coffee promotion....They submitted a paper/report based upon which the Joint Committee took a policy decision on 29-1-1981. For the marketing and for internal promotion we should have a five year plan....finally the basic decisions that were taken for promotion of internal consumption were like this.

We should dovetail the departmental promotion for consumption with the concept of market promotion. In other words, our idea was to make it a commercial proportion wherein we do not run into losses. So, the concept of coffee promotion was evolved. For the establishment of this coffee promotion sector 10 major cities in the country were selected. The potential was assessed and the idea was to integrate all the functions of promotion. This took into consideration the situation obtaining in non-traditional areas, in North India, for coffee and on how to roast and grind and prepare coffee powder etc.

This sector would have roasting unit, grinding unit and demonstration of roasting and grinding etc. It is better to have commercial or sales promotional branch so that the cost of productiton does not fall below the market price etc. so that they may serve as a financial incentive for distribution. We also have a laboratory to demonstrate the brewing techniques. We have facilities to give to restaurants to train people for coffee brewing etc. We should also train coffee makers and things like that. This kind of integrated approach was envisaged and 240 to 250 tonnes of coffee powder has to be sold in each unit. The quantity will be within the percentage of the coffee to be allocated to the propaganda department during the Plan period. The recurring expenditure on this account will flow out of Pool Fund. This scheme was submitted to Government for consideration. It is under the active consideration of the Government.

The success of the scheme depends upon the staffing of the centre. So, it requires specially qualified people with commercial outlook and things like that. Therefore, it is very carefully being examined by the Government. Once it is approved, we hope that there will be a stage when we can almost forge the further proliferation of coffee houses and restrict the same on a very very selective basis where the operational loss will not be there."

4.6. On being asked whether it was not necessary that the entire perspective of sales promotion should undergo change and that efforts should

be directed towards increased production and consumption of coffee in non-traditional areas, the witness replied:

> "I agree....We have changed our perspective We are on the way of improving things much faster."

4.7 Asked whether Government wanted to restrict internal consumption of coffee at a particular level to facilitate export of more coffee, the witness stated:

> As compared to 1959-60 when the total production was about less than 50,000 tonnes, in 1979-80 the production touched almost 1,50,000 tonnes. In 20 years, production has increased three times. The Ministry consider that it is not possible to think of developing coffee based only on exports. There must be a balance struck between domestic sales and exports. Then only there will be healthy growth of the industry. This is one of the reasons why even though 34 Coffee Houses were closed, subsequently 16 had been opened up in defferent parts of the country."

4.8 In reply to a further question regarding the expected growth rate in domestic consumption of coffee, the Chairman, Coffee Board stated:

> "The domestic growth rate should be around 3 per cent."

4.9 The expenditure on Propaganda Department was of the order of Rs. 5.28 crores in 1978-79, Rs. 4.71 crores in 1979-80 and Rs. 5.19 crores in 1980-81 as against receipts to the tune of Rs. 5.67 crores, Rs. 5.42 crores and Rs. 5.87 crores in the respective years. The main objective and purpose of the Department is stated to be to promote domestic coffee consumption. In justification of the high volume of expenditure on the Department, the Ministry have furnished figures of coffee consumption in India, which indicate that over the last two decades the annual consumption of coffee has gone up from nearly 30,000 tonnes in 1960 to 50,000 tonnes in 1981 (estimated) i.e. at an average rate of about 3 per cent per annum. The Committee would like to point out that this increase cannot be attributed entirely to the efforts of the Propaganda Department. As coffee is a traditionally accepted beverage in the southern States, the Coffee Board could hardly take credit for the increased consumption in that region. Part of this increase is in any case attributable to the population increase. The Committee consider that the real test of success of the Board's efforts lies in the increase in coffee consumption in non-traditional areas. The Committee find that although the consumption of coffee in non-traditional areas has increased from 8,737 tonnes in 1974 to 10,791 tonnes in 1979, such areas still account for only about 1|5th of the total coffee consumption in the country. The Committee therefore

consider that the Coffee Board must concentrate its energies on popularising coffee in the non-traditional areas.

4.10 The Sixth Plan projects an increase of 15,000 tonnes in domestic consumption i.e. an annual increase of 3,100 tonnes as against the present level of increase of 2,000 tonnes per year. To start with, it is proposed to set up coffee promotional centres in 12 urban and industrial centres of the country for conversion of raw coffee into pure quality ground coffee and its distribution, dissemination of right techniques of coffee roasting, grinding and brewing, serving of good quality liquid coffee from a coffee bar attached to each centre and administration of publicity programmes around the centres in various localities. These centres would thus integrate all functions of coffee promotion keeping in view the situation obtaining in non-traditional areas. The Committee are of the view that the task of coffee promotion in non-traditional areas calls for a change in the outlook as well as perspective of the Coffee Board. A stage has now been reached when it is necessary that the Board ceases to be an organization looking after only the traditional areas in the South. It must expand its horizon to other non-traditional areas in the country particularly in the North and North-East by actively involving the State Governments of these regions. The Committee suggest that for market development in non-traditional areas, the Coffee Board should supplement its own channels of distribution and develop the normal trades channels also, so that it is in a position to reach the consumer in the remotest areas of the country.

(b) *Coffee Houses*

4.11 The propaganda department runs coffee houses in certain places in India with a view to popularising coffee. It has also established several coffee depots all over the country for selling raw and powdered coffee. The Board also maintains coffee vans for serving liquid coffee in certain metropolitan cities. Prior to 1957 there were about 50 coffee houses run by the Board all over the country of which all except three were closed in 1957 as they no longer served the purpose of promotion of the coffee drinking habit and also the cost of running of the coffee houses was not commensurate with their usefulness as propaganda units. However, new coffee houses were opened from 1960. At present the Board runs 18 coffee houses. The losses incurred by them during 1976-77 to 1979-80, the reasons therefore and the steps taken to bring down the losses in the running of the coffee houses are given below:

> "The Coffee Houses are coffee promotional Units with the objective of stimulating coffee drinking habit and therefore increasing the demand for coffee within the country. Hence it may not be correct to view them as commercial organisations making profits or losses. Any expenditure in excess of receipt in respect of Coffee Houses of the Board are to be reckoned as an investment on promotion and not as loss. The amounts of

such excess of expenditure over receipts during the years 1976-77 to 1979-80 were as under:

1976-77	10,81,239
1977-78	11,27,188
1978-79	19,07,350
1979-80	18,95,398
Total	60,11,175

The reasons for such excess of expenditure over receipts mainly are as follows:

(i) Substantial and steep increase in the over-heads and operational expenses like rent, fuel, gas etc., Polythene bags, Pay and Allowances of staff etc.

(ii) Non-recovery of the full cost of coffee served in the Coffee Houses, as a promotional measure."

The steps taken by the Board to bring down the losses in the running of the Coffee Houses are enumerated below:

"(i) A complete review of the selling prices of coffee and catering items in all the Coffee Houses was conducted and the selling prices were revised upwards during 1980 and 1981. The effect of this revision will be reflected in the working results of the Units during 1981 to some extent and in subsequent years. In view of the general continuing inflationary trend on the prices of raw materials a continuous review of the selling prices is also being made.

(ii) A cost study is being conducted to evolve norms for staffing and other overheads, pricing etc., which can be adopted with a view to achieving economy in working."

4.12 Questioned on the subject the Director Finance, Coffee Board stated in evidence:

"With regard to the losses in the coffee houses we have taken steps to revise the prices so that the losses can be minimised. Our latest experience has been, that during the current year, upto October, i.e. six months' provisional accounts show against catering, sales of Rs. 17,98,000, our purchases have been upto Rs. 13 lakhs leaving a surplus of Rs. 41 lakhs. We do not except to incur any more losses this year."

(c) Sales through Cooperative Societies

4.24 According to Audit para, the quantity of Coffee lifted by the Cooperative Societies for internal consumption was just 2 per cent against 15 per cent earmarked by the Board every year for release through auction. In a note on the subject, the Ministry of Commerce have stated:

"The quantities of coffee lifted by Cooperative Societies as compared with the total internal releases and with 15 per cent thereof are given in the table below:

Year	Total Internal Releases (M.T.)	15% of Col.2	Lifted by Co-operative Societies (M.T.)	Percentage 4 of 2
1	2	3	4	5
1974-75	34,917	5,238	533	1·53
1975-76	37,623	5,643	508	1·35
1976-77	38,375	5,756	550	1·43
1977-78	45,219	6,783	903	2·00
1978-79	46,473	6,971	1096	2·36
1979-80	49,075	7,361	784	1·60
1980-81	49,088	7,362	686	1·40

The prices at which the coffees are released to Cooperative Societies are on the basis of average pool auction prices reduced by 2½ per cent and 5 per cent for traditional and non-traditional areas respectively."

4.25 In Para 3.57 of their 130th Report (Fifth Lok Sabha), the Public Accounts Committee had recommended as follows:

"The Committee therefore strongly recommend that the system of release of coffee seeds to the propaganda Department and Cooperative Societies at the minimum release price should be restored early. The Committee desire that the Board should ensure that out of the total quantity earmarked for internal consumption, the cooperative societies and India Coffee Depots do get their share of 15 per cent and 10 per cent respectively."

4.26 The Ministry of Commerce Vide their Action Taken Note dated 16 November, 1974 stated:-

"As regards release of coffee to the Propaganda Department and Cooperative Societies, the Coffee Board will review its price policy and consider the question of restoring releases at the minimum release prices to these two channels of distribution."

4.27 Asked to indicate the present position in the matter, the Ministry of Commerce, have stated:

"The Marketing Committee which considered this matter constituted a Sub-Committee to examine the matter in depth. The arguments against allotting coffees to Co-operative Societies at Minimum Release Price were as below:

(a) Effective part had been played by the pool Sales dealers who purchased and distributed 90 per cent of the coffee consumed in India by participating in open auctions and securing coffee at competitive bids.

(b) The wide disparity that existed between the pool auction prices and the prices at which coffee was allotted by the Board to the local sale dealers and co-operative societies resulted in considerable imbalance in the market.

(c) There was scope for malpractices by the allottees who could dispose a large portion of their allotment in bulk, without serving the genuine consumer by sale at the retail rates fixed by the Board.

The Sub-Committee considered the whole issue and recommended that the system of alloting coffee to the Co-operative Societies at an average of Pool sale prices less $2\frac{1}{2}$ and 5 per cent respectively in respect of traditional and non-traditional areas be continued."

4.28 The Public Accounts Committee had, in their 130th Report (Fifth Lok Sabha), recommended that the Coffee Board should ensure that out of the total quantity earmarked for internal consumption the Co-operative Societies and India Coffee Depots do get their share of 15 per cent and 10 per cent respectively. Government had informed the Committee in November 1974 that the Coffee Board would review its price policy and consider the question of restoring releases at the minimum release prices to these two channels of distribution. The Committee regret to find that inspite of this assurance, the Sub-Committee of the Marketing Committee thought it fit to recommend that the system of allotting Coffee to the Co-operative Societies at an average of pool sale prices less $2\frac{1}{2}$ per cent and 5 per cent respectively in respect of traditional and non-traditional areas be continued.

4.29. The data furnished to the Committee shows that the quantity of coffee lifted by the Co-operative Societies has come down from 2.36 per cent of the total internal releases in 1978-79 to 1.60 per cent in 1979-80 and 1.40 per cent in 1980-81. The Committe feel concerned to find that the offtake of coffee by the Co-operative Societies is very negligible. Both from the point of view of popularising coffee and for holding the price line in respect of this beverage, it is essential to encourage its sale through Cooperatives/Coffee Depots run by the Coffee Board. The Committee would therefore reiterate their earlier recommendation that at least 15 per cent of the total quantity earmarked for internal consumption should be made available to the Co-operative Societies and 10 per cent to the India Coffee Depots at the minimum release prices, taking adequate precaution to see that there is no malpractice in sales.

(d) *Export of Coffee*

Quantity exported about Unit Value realised

4.30. The Table below indicates export of Coffee from India during the years 1971-72 to 1980-81:

Fiscal year	Quantity in tonnes	Value in crores of rupees	Unit value per tonne in Rs.
1971-72	35,695	22·07	6,183
1972-73	50,856	32·93	6,485
1973-74	32,688	46·01	8,733
1974-75	49,467	51·36	10,382
1975-76	59,386	66·65	11,224
1976-77	50,558	125.75	24,873
1977-78	55,813	217·09	38,896*
1978-79	65,400	150·19	22,963
1979-80	61,959	178·97	28,885**
1980-81	89,018	215·00	24,152

In respect of 1980-81, quantity covers equivalent of raw coffee on instant coffee exports:

*Freak phenomenon in the international market due to massive frost attack in Brazil which reduced world supplies drastically, resulting in steep price hike to more than 300 cents per lb. as against 1975-76. There has been progresive normalization of the market situation leading to near-stabilized price conditions.

**Another mild frost in Brazil resulted in price hike.

India's share in the total volume of International Trade in Coffee during 1977—79 is indicated below:

	1977 (Qty. in 100 tonnes) Qty.	Value	1978 (Value in Million US$) Qty.	Value	1979 Qty.	Value
i. Total volume of International Trade (Exports)	2931	12,540	3391	11,203	3819	12,238
ii. India's share in International Trade	49	205	64	182	62	197
iii. Percentage of India's Trade to total world Trade	1·68	1·63	1·90	1·63	1·62	1·61

4.31. Under section 20 of the Coffee Act, no Coffee can be exported otherwise than by the Coffee Board or under an authorisation granted by the Board. During 1974-75 to 1978-79, 2.81 lakh tonnes of coffee was exported, out of which the Board exported 1.38 lakh tonnes. The Ministry of Commerce have furnished the following note regarding export of the balance of 1.43 lakh tonnes of coffee by the private exporters:

"Export of coffee was being done through the traditional trade channels i.e., the private exporters who were purchasing coffee in the export auctions held by the Board regularly throughout the year. However, a study team headed by Shri M.C. Kaul, had felt that as the Coffee Board was solely responsible for the marketing of coffee in India and abroad and as more than 70 per cent of the exports at that time were to the rupee-payment countries, the feasibility of the Board entering the export trade of coffee could be considered and that the Board should play a bigger role with regard to actual exports of coffee. In the light of this recommendation, the Board started its direct sale operations from 1972 which were initially to the rupee-payment countries and later expanded to other countries. The Public Accounts Committee of the Parliament in its 130th report (1974-75) had recommended that the entire exports of coffee should be canalised through the Board instead of through the private exporters. The Marketing Committee at its 177th meeting held on 15.12.1976, while reviewing the export policy in the light of this recommendation of the Public Accounts Committee, felt that the then existing practice of the Board entering into direct sales and also conducting sales through export auctions side by side should continue. Accordingly, both the systems are being followed for sales

for export. The Board's direct sales account for nearly 50 per cent of the total exports from India."

4.32 Elaborating this point, the Chairman, Coffee Board stated in evidence:

"Originally in 1972 our direct exports were only to East European countries. Subsequently, we expanded our export to almost all the major countries of the world.

There are certain advantages in the present dual system of marketing of coffee and export. For instance, the Coffee Board are exporting to the major overseas buyers on a continuous and longer basis. They do not want to fritter away their time and energy in selling to small buyers overseas.

Secondly, direct sale by the Coffee Board has been made in consonsance with the auction prices. Direct sale by the Coffee Board is invariably related to the preceding auction prices. Lastly, over a period of time from 1972 when we started direct sale, we have reached a commanding height of 52 per cen in export. These are the three reasons.

The Government also prefers dual system because under the international coffee agreement, quotas are to be given to the member country and these quotas have a bearing on the export performance. In order to get the maximum advantange of quotas, the Government wanted the Coffee Board to do its job of boosting export and simultaneously allowing private exporters to do their job."

4.33 The Committee were informed that the countries to which coffee was primarily being sold were USSR, USA, Poland, Hungary, Yugoslavia, Czechoslovakia, Japan, West Germany, Netherland, Romania, Iraq, Sweden, Switzerland, Australia, Norway, Belgium etc.; covering almost all the European countries. Some of the East European countries were getting coffee from India under the bilateral trade agreements. Since the bilateral contract sale price and the market price fixed by the Coffee Board varied, the Committee enquired whether in their anxiety to sell coffee in bulk to other countries, the Board was losing in the business. The witness deposed:

"Our impression is different, Sir. The Coffee Board is fully at liberty to deal with the price aspect of it. So we arrive at the formula for selling our coffee to the bilateral countries. This formula is linked with the auction prices. We are realising, in fact, a little more by sales to the East European countries than our pool auction prices. We are not losing anything in our sales to the East European countries... It can be more than the auction

price but still the Unit Value realisation need not necessarily be higher. These factors will have to be looked into."

4.34 The United Planters' Association of Southern India have, in their Memorandum to the Committee submitted* as follows:

"An important development since 1973-74 has been the role of the Coffee Board in entering into large scale direct contracts with certain foreign buyers. We feel this matter requires a review, particularly keeping in mind the possibility of lesser competition in the auctions by the non-participation of major buyers. Such a situation does not exist with any of the other plantation commodities. It is our submission that even if such direct transactions with bilateral countries like the USSR are found to be necessary, they should only be in limited situations. While we have been assured that the prices obtained in respect of exports to the bilateral markets had been on par with those fetched at the auctions, particularly taking advantage of the sales tax exemption that then existed, an analysis of the information available from the Director-General of Commercial Intelligence and Statistics, Calcutta, for the period 1975-76 to 1977-78 does not give that impression, at least, in regard to our largest non-auction buyer, the USSR....

Although a grade-wise break-up is not readily available for the recent years, a relative improvement in the unit realisation to the USSR is noticed during 1980-81....

It is our submission that all direct sales entered into by the Board should not only be properly monitored but also negotiated with the assistance of a Sub-Committee of the grower members of the Board."

4.35 Asked to furnish details of coffee sold through direct sales contracts with foreign countries during the years 1978-79, 1979-80 and 1980-81, the Ministry have furnished the following information:

	Qty. in tonnes	% of total exports	Value in Crores	Unit Value per tonne
1978-79 . .	31,676	48·5	Rs. 86·91	Rs. 27,437
1979-80 . .	44,950	73·0	Rs. 110·40	Rs. 24,561
1980-81 . . .	37,979	44·9	Rs. 70·53	Rs. 18,570

*Not Vetted in audit.

4.36 The Committee pointed out that there was a fairly regular cyclic movement in international prices of coffee as also there were fairly regular periods when the international prices were likely to be low and posed the question whether the Coffee Board would utilise this knowledge for regulating their sales through international auctions when the international prices are high and by withholding their stocks from auction when the international price are low. The Chairman, Coffee Board, explained in evidence:

> W have to subserve the quota areas. Our country is giving a definite quota beyond which we cannot sell to the member countries. Ninety per cent of the importing countries are Members. That quantity will have to go to those countries. There is another area, which is called non-Member area, substantially covered by Eastern Europe and Soviet Union. The rest of the quantity will have to go to that area.
>
> It is handled in two methods, through export auctions to private exporters and by direct sales on the spot basis and also on long-term quantity basis. It is fundamentally dependent on the capacity of curer. The curing areas are located between monsoon and non-monsoon Central area. There is also the question of movement of Coffee regularly on a monthly basis. Approximately, we require today 7,500 tonnes a month for catering to all these, besides the internal auctions for the internal sales. So, we have to function all through the year to cater either to the internal sale or to the exporter or to the quota country or to the non-Member country. But we always take care to see when we export our Coffee to work out on an annual basis the best for us....We get one of the best unit value reaslisations in the world for our Coffee."

4.37 In reply to a further question, the witness, stated:

> "In 1975-76 we exported 59,386 tonnes. We have already reached a level of 90,000 tonnes in 1980-81. The actual figure is 39,000 odd and we are aiming at 100,000 tonnes, right now which is supposed to be the target at the turn of the century. The unit value rose from a level of Rs. 11,000 in 1975-76 to the present level of Rs. 24,152. Unit-value wise we are No. 1 in the world in realising the maximum unit value out of export sales."

4.38 Asked about the future outlook in regard to coffee exports, the witness stated:

"As you all know, coffee is a commodity which is very much controlled by the international organisations in which both the exporters and also the importers are members. The economic provision in the coffee agreement of 1976 of the International Coffee Organisations provides for the fixation of quotas. In other words, we have to take into account in our projections for exports during the next five years; the optimal level of our ability of sale to the Member countries. That means the quota will be on our head for the next few years and, according to which, we will be able to sell to the Member-countries. We have also to keep in mind the non-member markets out of the projected .production, we have earmarked quantities for the internal consumption. Taking the rate of increase in internal consumption at five per cent per year, it would take us to a level of 65,000 tonnes of consumption by the end of the Sixth Plan. Similarly, as I have submitted earlier, 100 thousand tonnes are the quantities planned for exports by the end of the Sixth Plan. In other words, we have a total of marketable quantity of 1,65,000 tonnes for which we have tied up the markets as follows with the quota countries.....We have entered into a long-term contract with the Soviet Union. They have to lift a quantity between 25,000 to 30,000 tonnes per year for the next five years. So this leaves a balance of 15,000 tonnes to be disposed of by us in the international market. The sale of 15,000 tonnes by us is a problem. There are five or six E.E.C. countries which traditionally buy coffee from us and who happen to be the members in the international organisation. By 1985, marketing of coffee will be tied up both for internal as well as for external sales. The production level targets as envisaged by us have already been reached. We are wanting to go a little beyond that for the next five years also. So, we are planning for a rate of increase of 5.5 per cent on exports and 5 per cent on our internal sales. At that level, we will not have any serious problem of disposing of our commodities."

4.39 The Committee enquired what efforts have been made to export coffee to Gulf countries. The Ministry of Commerce have stated:

"Coffee available after quota commitment towards exports to Member-importing countries are satisfied, are exported to Non-Member counrties through normal trade channels.

Following are the exports to Gulf Countries for the last three Coffee Years 1977-78, 1978-79 and 1979-80:

Exports

(Quantity in tonnes)

Country	1977/78	1978/79	1979/80
Kuwait	1831	818	1444
Trucial States	1354	136	387
Bahrain	205	158	233
Oman	134	61	343
Quatar	—	36	80
Dubai	—	517	1045
	4024	1726	3532

All the above Gulf countries non come under classification of Non-Member."

*Trucial states included Abu Dhabi and Quatar upto 1977-78.

Export Duty on Coffee

4.40 The Committee desired to know the criteria for determining the rate of export duty on Coffee. In a note the Ministry of Commerce have stated:

"The criterion for levy of export duty on coffee is that whenever the export prices go beyond a particular level (at which level the grower is assured of a reasonable margin of profit over and above the cost of production) the excess profit so realized is partly mopped up by Government in the form of export duty. Presently this price level has been fixed at Rs. 16,000 per tonne and duty is levied only when the international price goes beyond this level.

The fluctuations in the international prices of coffee are closely monitored from week to week with reference to London Terminal Prices. If the London Terminal Price goes up or goes below the base period price by 10 per cent or more (base period price being the price at the time at which earlier revision of export duty was affected), and the increasing/decreasing trend is reflected consecutively for two weeks, export duty rate is changed. The average London Terminal Price per tonne for the latest two weeks is converted to rupee equivalent and an amount of Rs. 16,000 is deduced therefrom. The balance is divided by two for fixing the export duty rate. To give an example:

1. Presuming the average (latest two weeks) of London Terminal Price of Coffee per tonne to be..... £ 1200
2. Rupee equivalance of £ 1200 at the rate of say Rs. 17·40 per £ Rs. 20,880
3. Less Rs. 16,000/- (Rs. 20880—Rs. 16000) Rs. 4,880
4. Half of Rs. 4,880/-. Rs. 2,440
5. Export duty rate Rs. 2·44 per Kg.

4.41 Asked about the rates of export duty prescribed by Government from time to time and the actual amount of export duty paid since 1976-77, the Ministry have furnished the following information:

From	to	Rate per quintal Rs.
6.11.76	25.4.77	1300
26.4.77	17.5.77	2200
18.5.77	24.6.77	1600
25.6.77	12.9.77	1100
13.9.77	16.10.77	1300
17.10.77	15.3.78	700
16.3.78	30.7.78	500
31.7.78	5.9.78	200
6.9.78	17.6.79	400
18.6.79	5.7.79	750
6.7.79	3.8.79	900
4.8.79	31.1.80	730
1.2.80	27.5.80	570
28.5.80	16.7.80	700
17.7.80	13.8.80	500
14.8.80	30.11.80	260
1.12.80	18.6.81	150
19.6.80	21.8.81	Nil
22.8.81	9.9.81	75
10.9.81	11.11.81	Nil
12.11.81	Continuing	85

The actual amounts of export duty realised by the Government is as below :

1976-77	Rs. 31.55 crores
1977-78	Rs. 60.96 crores
1978-79	Rs. 26.47 crores
1979-80	Rs. 39.08 crores"

4.42 Explaining the rationale for frequent revision in the rate of export duty on Coffee, the Chairman, Coffee Board stated in evidence:

"Five years ago when this issue came up that the prices went up beyond 400 per cent in the international market in 1976-77, the Government fixed a very high duty on coffee. At that time we represented to the Government as follows:

This kind of steep escalation in a particular year and a steep decline in the subsequent years is interefering with the marketing strategy and also in maximising the foreign exchange earnings of the Government of India. Secondly, neither the exporters nor the growers nor the Coffee Board nor the buyers are in a position to know what is going to be the price of Indian Coffee in a particular week or in a particular months. So, we submitted to the Government that a rational policy will have to be evolved in the levy of duty and that should be related to fluctuations in the price of international market. That should also take into consideration the minium that should be left with the coffee growers for re-investment on Coffee cultivation for substantially increasing the productivity which would in the long run bring greater returns to the Government. Therefore, a long range view will have to be taken in this connection. Fortunately, the Finance Ministry and the Commerce Ministry, both of them, have applied their minds very much on this. For the first time, for coffee, they made a special dispensation. It is like this.

They have arrived at a particular minimum that should be retained with the coffee growers. That minimum would include not only the cost of production but also the returns to the growers which act as a cushion, which would enable them to borrow money from the financial institutions by using this cushion. They take into account the weekly deviations in prices which vary by more than ten per cent. For the first time between the ministries they will have an understanding as to whether a situation has come when the duty has to be increased or decreased. We feel that this formula will work well. I have submitted that out of the total price a minimum should be left to the growers. And whatever balance is left, that is shared between the grower and the Government on 50:50 basis. Since then, this system has been working very satisfactorily and there is some kind of comfort for the growers that a certain minimum has been recognised by the Government. Surely the international buyers and the exporters can predict as to when the duty is going to change, by what extent it can be changed.... This is working extremely satisfactorily. Now, the 1973-74 situation is not there."

4.43. Asked whether the raise in duty was done automatically by the Ministry of Finance or it was based on the recommendation of the Ministry of Commerce, the witness stated:

> "There is hardly any difference of opinion between the Ministry of Finance and the Ministry of Commerce because the formula has been accepted by the Board."

He added:

> "It is through the application of the formula that the Government wants to mop up part of the profits on account of the increase in international prices."

4.44. In reply to a further question the Chairman, Coffee Board clarified:

> "The prices—London Market terminal price—for the robusta and arabica are quite different. Therefore, the Government are always taking the lower of the two. The robusta price is lower. So, the duty is levied on that basis."

4.45. The Committee wanted to know how it was ensured that the farmers got the benefit of spurt in coffee prices in the international market and similarly how the Board ensured that a slump in the prices in the international market did not unduly affect the fortunes of the small farmers. The Ministry of Commerce have stated:

> "Under Section 32 of the Coffee Act, all sales realisations less the marketing expenses are passed on to the growers. The prices realised for exports of coffee made either directly by the Board or through the export auctions are related to international prices prevailing at the relevant time. Thus farmers get the benefit of the spurt in coffee prices in the international market. India is in the market throughout the year. Usually, international market is subject to fluctuations depending upon market factors and whether conditions. Such fluctuations resulting in hike or decline in prices average out over a period of one year. The experience of India is that the overall average return is higher than the international prices because of marketing strategies.
>
> In the recent past, the international prices have ruled higher than the domestic prices. All domestic sales of coffee are made at or above minimum release price which ensures to the grower his cost of production plus a fair return as computed by the Cost Accounts Officer of the Government of India".

4.46. In their Memorandum to the Committee, the United Planters' Association of Southern India have observed.*

> "We may refer to the harshness and frequency with which the export duty is levied on coffee. The import has been revised as many as 23 times during the last 5 years and was levied at an all-time peak rate of Rs. 22,000 per tonne in 1977-78. In fact, coffee ranks first among commodities in revenue yields through export duty, totalling Rs. 31.55 crores in 1976-77, Rs. 60.95 crores in 1977-78, Rs. 26.48 crores in 1978-79, Rs. 39.98** crores in 1979-80 and Rs. 32.00** crores in 1980-81. To look upon the export duty merely as a source of short-term revenue, we feel, is inconsistent with the long-term prospects of our exports, particularly in the case of coffee which, being treated as a traditional export item, does not enjoy the benefits of export incentives such as export credit assistance, grant-in-aid, cash subsidy, import entitlement, etc. It is, therefore, our submission that a part of the export duty realisation from coffee may be set aside and allowed to be utilised in furtherance of the industry's developmental efforts.
>
> Reference may also be made, in this connection, to the unsettling effect the sporadic changes in the export duty have in trade circles mainly because the duty does not exclude stock in the pipeline for export. Since Coffee sold at the export auctions cannot be switched to the internal market and is under the Board's control until it is actually exported, we see no reason why a procedure cannot be evolved for levying the new rate prospectively so that contracts which can be proven to have been entered into prior to the notification are made outside the purview of the renewed duty."

4.47. Exports of coffee have increased from 35,695 tonnes valued at at Rs. 22.07 crores in 1971-72 to 89,018 tonnes valued at Rs. 215 crores in 1980-81. The unit value went up from Rs. 6,183 per tonne in 1971-72 to Rs. 24,152 in 1980-81. The Committee however observe that exports in relation to the total production of coffee in India have come down from 61 per cent in 1974-75 to 57 per cent in 1978-79.* India's share of the total world trade in coffee, which was a meagre 1.68 per cent in 1977 and 1.90 per cent in 1978, declined to 1.62 per cent in 1979. . .It would thus appear that the growth in production of coffee in India is not matched with the performance on the export front. The projections for the Sixth Plan envisage the production to go up from nearly 1.10 lakh tonnes in 1978-79 coffee season to 1.60 lakh tonnes in 1984-85. A growth rate of 5.5 per cent per**

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*Not Vetted in Audit.

**Budget of the Central Government for 1981-82.

***Figures pertain to the respective Coffee season.

annum in the exports is also visualized. The committee consider that the Coffee Board will have to make all out efforts to promote export of coffee in the coming years. The Committee are of the view that the largely untapped markets in West Asia and other non-quota regions offer a good deal of scope for augmenting the exports of coffee. The Committee would therefore impress upon the Board the need to redouble their efforts in this direction.

4.48. Under Section 20 of the Coffee Act, the exports of coffee can be made only by the Board or under an authorization granted by the Board. It is by virtue of this provision that coffee is made available for exports through auctions by the Board. The Coffee Board also directly exports coffee, primarily to countries with bilateral trade agreements. The direct sales amounted to 31,676 tonnes in 1978-79, 44,950 tonnes in 1979-80 and 37,979 tonnes in 1980-81 representing 48.5 per cent 72.8 per cent and 44.9 per cent of total exports in the respective years.

4.49. The Committee were informed during evidence that there were certain advantages in the present dual system of export of coffee by the Coffee Board and private exporters. The Committee suggest that the question of canalisation of exports through the Board should be taken up at the appropriate time and in the meanwhile the Board should be in a position to monitor the international prices with a view to ensuring that the export realisation in all cases does not fall below the ruling prices at any time.

4.50. The Committee were assured that the direct sales were invariably related to the preceding auction prices and that the country was not losing anything on such sales. It was however admitted that though the prices obtained through direct sales "can be more than the auction price but still the unit value realization need not necessarily be higher". The data for the years 1978-79, 1979-80 and 1980-81 called for buy the Committee shows that the unit value per tonne of coffee realized through direct sals was Rs. 27,437 against the overall unit value of Rs. 22,965 in the first year. However, during the subsequent two years it fell short of the overall unit value, the comparative figures being Rs. 24,561 against Rs. 28,885 in 1979-80 and Rs. 18,570 against Rs. 24,150 in 1980-81. In this context the view expressed by the United Planters Association of Southern India that the direct sales agreements entered into by the Board need to be carefully monitored and that it is essential to associate the representatives of the growers in the negotiations for direct sales, therefore merits consideration. The Committee would like to be apprised of the steps taken by the Coffee Board to ensure that malpractices are eliminated and the interests of the growers are fully safeguarded while negotiating contracts for direct sales and best value is obtained of the coffee sold through such sales vis-a-vis the auction prices.

4.51 The United Planters' Association of Southern India has further pointed out in its Memorandum to the Committee that the export duty on

coffee has been revised as many as 23 times during the last five years and an all-time peak rate of Rs. 22,000 per tonne was levied in 1977-78. It has been stated that to look upon the export duty on coffee merely as a source of short-term revenue is inconsistent with the long-term prospects of our exports. Further, coffee does not enjoy the benefits of export incentives such as credit assistance, grants-in-aid, cash subsidy, import entitlement etc. It has therefore been suggested that a part of the export duty realization from coffee may be set aside and allowed to be utilized in furtherance of the industry's developmental efforts. The Committee would like this suggestion to be examined and to be apprised of the decision taken by Government in the matter.

NEW DELHI;
February 15, 1983
Magha 26, 1904 (S)

SATISH AGARWAL
CHAIRMAN
PUBLIC ACCOUNTS COMMITTEE

APPENDIX I

COFFEE BOARD

Audit Paragraph

1. Introductory—The Coffee Board, Bangalore was established under the Coffee Act, 1942 (hereafter Act) as a corporate body to promote the development of coffee industry of India. It is empowered under the Act to control the export and internal consumption of Indian coffee, sell coffee delivered to a surplus pool by the coffee estates, act as a licensing authority for coffee curing establishments, etc. It also undertakes measures for, (i) promoting agriculture and technological research in coffee, (ii) increasing production, sale and consumption of coffee, in India and elsewhere, (iii) assisting the coffee estates in their development activities and (iv) ensuring welfare of Workers in coffee industry. A Chairman and 32 nominated members (29 nominated by Government, 2 by Lok Sabha and 1 by Rajya Sabha) Constitute the Board.

2.0. Finance, accounts and audit—Under section 30 of the Act, the Board maintains two separate funds, *viz.*, a general fund and a pool fund. The general fund is credited with the grants given by Government under section 13 of the Act, out of the proceeds of excise and customs duties levised under section 11 and 12 thereof and other loans raised for assisting the devlopment of coffee estates. This fund is utilised for meeting the expenditure on administration, propaganda, development, research, welfare measures for labour, etc.

2.1. The Board is authorised under the Act to prescribe the quota for direct sale by the coffee growers any coffee produced in excess of the Quota is surrendered by the growers to the Board for disposal and sale proceeds of Coffee collected in the surplus pool, are credited to the pool fund; out of the fund, payments are made to the owners of estates who supplied coffee to the pool, after meeting expenses on storage, curing transport, marketing, etc. Any surplus in the pool fund after meeting all expenses can, with the previous sanction of Government, be transferred to the credit of the general fund; the surpluses had been so transferred to general fund to end of 1971-72 seasons only so far (October 1980). As on 31st October 1978 the accumulated surplus in the pool fund account amounted to Rs. 16.16 crores.

2.2. The period of accounts for the general fund coincides with the financial year of Government. For coffee collected in the surplus pool in each season, a separate account is kept until all coffee collected in the surplus pool for that season is disposed of and as a result, each pool account is spread over a period longer than one year. In regard to a time lag of nearly 3 years in presenting the account of the pool fund for the season 1961-62 to Parliament, the Public Accounts Committee recommended in its 41st Report—3rd Lok Sabha (1965-66) that Government should examine the matter and reduce the time lag. Pursuant to these recommendations, Government decided, that each pool fund would run for a period of 21 months from 1st October each year and that the accounts would be made available for audit within the next 3 months. This time schedule had not, however, been adhered to in practice as indicated below.

Pool fund Year	Scheduled period of commencement and completion	Actual period and commencement and completion	When accounts were ready for audit	Time taken to complete accounts
1974-75	October 1974 to June 1976	January 1975 to July 1976	September 1977	13 months
1975-76	October 1975 to June 1977	January 1976 to September 1977	Spetember 1978	11 months
1976-77	October 1976 to June 1978	January 1977 to October 1978	July 1979	8 months
1977-78	October 1977 to June 1979	January 1978 to September 1979	October 1980	13 months
1978-79	October 1978 to June 1980	January 1979 season not over		

As a result, there had been delays in placing the audited accounts and audit reports before Parliament and so far (August 1980) the general fund accounts up to 1977-78 and the pool fund accounts up to 1976-77 have been certified for being placed before Parliament. The Board had, however, since decided (February 1980) that effective on 1st January and closed on 31st December and that the accounts would be made available to Audit within 3 months thereafter, *viz.*, by 31st March.

2.3. A summary of the receipts and payments from the general funds accounts for the years 1973-74 to 1977 and pool fund accounts for the years 1972-73 to 1976-77 is given below.

General Fund:—

	1973-74	1974-75	1975-76	1976-77	1977-78
Receipts			(In lakhs of rupees)		
Opening balance	11.21	12.33	18.04	22.17	40.39£
Grants from Government	62.96	69.80	84.88	87.80	104.63
Loans from Government	49.73	46.01	49.72	52.24	92.20
Receipt by sale of coffee through propaganda department	267.00	285.06	270.61	358.18	477.11
Other receipts	63.77	93.19	105.98	129.03	155.80
TOTAL	454.67	506.39	529.23	648.83	870.33
Payments Administrative charges	32.20	16.34	17.13	19.17	19.13
Expenditure on prohaganda department	232.88	282.30	275.63	334.82	443.80
Expenditure on research	57.51	43.52	49.47	56.03	64.46
Repayment of loans to Government	9.49	13.60	16.08	17.20	20.25
Loans to coffee estates for their development	91.75	110.41	122.59	149.62	213.25
Expenditure on international Coffee Organisation (Agency) cell (Project wing)				4.00	15.74
Other expenditure	18.51	22.18	26.16	31.15	15.74
Closing balance	12.33	18.04	22.17	37.84	54.70
TOTAL	454.67	506.39	529.23	648.83	870.33

£Includes Rs.2.75 lakhs transferred from diversification fund on closure of Internal Coffee Organisation (Agency) Cell.

Pool fund :—

	1972-73 1-1-73 to 30-6-1974)	1973-74 1-1-74 to 30-6-1975)	1974-75 1-1-75 to 31-7-1976)	1975-76 1-1-76 to 30-6-1977)	1976-77 1-1-77 to 31-10-1978)
			(In lakhs of ruppes)		
Income:					
Sale of coffee :					
(i) Export sale	4,009.37	4,956.44	5,555.06	9,983.83	19,814.29
(ii) Internal sale	2,013.33	1,192.84	2,582.19	1,924.11	3,776.75
Miscellaneous rercipts	7.39	5.71	4.49	31.22	76.27
Excess of expenditure over income			103.13*		
TOTAL	6,030.09	7,154.99	8,244.87	12,939.17	23,667.31
Expenditure:—					
Payment to big growers	3,254.35	3,688.69	4,288.61	5,617.32	9,952.77
Payment to small growers	2,173.36	2,730.98	3,074.76	5,309.86	8,214.98
Excise duty on internal sales	33.66	31.38	33.75	33.08	46.43
Remuneration to agents	80.79	70.28	83.94	98.14	136.19
Cost of storage, transport and marketing	69.43	87.36	206.16	105.63	199.00
Administration of marketing	54.35	58.94	74.20	80.66	83.77
Other payments including interest on overdrafts etc.	274.34	358.75	483.45	1,494.27	3,628.32
Excess of income over expenditure	89.81	128.61		200.21	1,405.85
TOTAL	6,030.09	7,154.99	8,244.87	12,939.17	23,667.31

*Represents the payments made to growers in excess of pool realisation.

The accounts up to 1979-80 in respect of general fund and 1977-78 season in respect of the pool fund had been finalised by the Board (October 1980). The audit of the accounts of the Coffee Board is conducted by the Comptroller and Auditor General under section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

2.4. The amount payable to the growers from the pool fund is dependent on the surplus left after meeting marketing expenditure. However, in the

pool accounts for 1974-75 the payment made to the growers exceeded the available funds by Rs. 1.03 crores due to wrong calculations and the Board stated (January 1978) that the excess payment would be recovered during payments for the next two pool seasons. So far (to end of 1977-78 season), Rs. 58 lakhs had been recovered from the growers.

3.0. Development of coffee industry—Coffee is cultivated commercially in the country mainly in three states, *viz.* Karnataka, Tamil Nadu and Kerala. Measures of development undertaken by the Board till 1975 were concerned with increase in output in the existing areas. In 1956, the Board launched coffee development plans aimed at achieving higher productivity: under the plan, direct financial assistance in the form of loans for intensive cultivation, crop hypothecation, replantation, etc. and indirect aid in the form of equipment and machinery to growers were envisaged. Subsidy was also paid at prescribed rates under a replantation finance scheme for small growers (implemented in 1967). From 1975, the Board started implementation of schemes for extensive cultivation of coffee as well. To end of 1978-79, the Board had, under the various development measures, disbursed subsidy amounting to Rs. 15.49 lakhs for replantation and loan assistance to the extent of Rs. 14.26 crores as per details below:

Particulars of assistance	Year of implementation	Type of grower	Number	Amount spent up to 1978-79 (In lakhs of rupees)
(i) Loans for intensive cultivation.	1956	*Small	2,751	227.40
(ii) Crop hypothecation loan	1962	Small and large having up to 100 acres of land	5,258	385.60
(iii) Scheme for supply of machinery & equipment	1960	All growers	3,505	652.90
(iv) Replanting finance scheme	1967	Small	728	137.40
(v) Special purpose loan scheme	1972	Small	200	15.20
(vi) Extensive cultivation loan (for marginal extension of the area).	1975	Small	185	7.90

*Note. Small grower/refers to grower owning less than 15 acres of land under coffee.

3.1. An analysis of the achievements under development schemes (i), (iii) and (iv) above revealed that to end of 1978-79 (i) under the scheme of loans for intensive cultivation only 9.26 per cent of the small estates

availed of the facility (ii) under the scheme for supply of machinery and equipment, equipment was hired to cover a progressive total area of 0.73 lakh acres (in about 20 years) out of ever 4.63 lakh acres under coffee cultivation and (iii) the replantation finance scheme had been availed of by 728 estates only out of ever 21,000 estates. Thus, only a small percentage the total number of growers had, in fact, taken advantage of the development schemes, despite the fact that 90 per cent the growers belonged to the category of small growers (*i.e.*, owning less than 50 acres each) and the production of coffee by them during the years 1974-75 to 1976-77 amounted to 47,995 tonnes, 41,999 tonnes and 55,568 tonnes respectively against that of 44,511 tonnes, 41,983 tonnes and 46,680 tonnes respectively by large growers. The Board stated (September 1980) that this was due to the inability on the of large percentage of small growers to produce original title deeds of their lands as security for loan.

3.2. Under a coffee expansion scheme launched in the Sixth plan, the area under cultivation in traditional and non-traditional areas had been proposed to be raised from 1.86 lakh hectares in 1976-77 to 3 lakh hectares and the yield from 1.20 lakh hectares in 1976-77 to 2 lakh tonnes 2000 AD. As against the annual target of 2,800 hectares for non-traditional areas and 1,600 hectares for traditional areas for the year 1978-79, the actual achievements were 102.50 hectares and 4,691 hectares respectively. Thus, the development had not been according to the plan and the Board stated (June 1980) that on account of delay in set up of corporations by the State Government shortfall had accurred in non-traditional areas.

3.3. The overall productivity of coffee per hectare of land under cultivation had not increased over the years and the figures for each of the seasons 1973-74 to 1978-79 stood at 600, 600.600, 611,710 and 602 kgs. per hectares respectively. The average yield in respect of small growers, who constituted more than 90 per cent of registered growers varied from 216 kg. to 583 kgs. per hectare, where as it was between 774 kgs. and 1057 kgs. per hectare for large growers. The average yield per hectare in Karnataka State (having 53.6 per cent of area under coffee cultivation) was 819.60 kgs. and 692.50 kgs. for Arabiea and Robusta respectively. In Kerala and Tamil Nadu, the Board reported (November 1980) that the yield had increased from 366 kgs. and 384 kgs. per hectare in 1974-75 to 682 kgs. and 547 kgs. respectively in 1979-80.

3.4. Out of the loans disbursed (Rs. 14.26 crores) for various schemes, Rs. 42.16 lakhs towards loan and Rs. 18.16 lakhs towards interest were overdue for recovery as on 31st March 1979; of these, Rs. 6.67 lakhs towards loan and Rs. 1.71 lakhs towards interest were overdue for more than 3 years. The Board stated (June 1980) that recovery had been delayed in a few cases, where the estates did not register good yield and in a few others

in which courts issued orders not to attach crops of the estates, and that in certain chronic cases, legal action had been initiated.

4.0 Disposal of coffee produced in the estates—Coffee has to undergo a curing process before it can be marketed and this process is carried out by firms licensed by the Board under section 28 of the Act. Under section 19 of the Act, no coffee can be exported otherwise than by the Board or under an authorisation granted by the Board. In so far as internal sales are concerned, the Board is empowered to fix a quota for each estate under section 22 and any coffee available with the estates in excess of the quota is delivered to the Board to form part of the surplus pool for disposal under section 25 (No internal sale quota had been alloted to the estates for over 20 years). During 1974-75 to 1978-79, 2.81 lakh tonnes of coffee were exported; out of this, the Board exported 1.38 lakh tonnes. Sale for internal consumption during 1974-75 to 1978-79 amounted to 2.03 lakh tonnes.

Under section 16 of the Act, Government is empowered to fix the prices at which coffee can be sold wholesale or retail in the country; this power has not, however, been exercised by Government and instead, Government fixes the minimum release price for coffee which is taken into account for fixing the floor price for auction, through which 85 per cent of coffee is released for internal consumption.

In this connection, it was noticed in audit that the quantity of coffee lifted by the co-operative societies was just 2 per cent against 15 per cent earmarked by the Board every year for release through this channel. The Public Accounts Committee in its 130th Report (5th Lok Sabha) (1973-74) had recommended that the Board should ensure that co-operative societies get their share of 15 per cent of the internal sales at minimum release price. The Board had been alloting coffee to the societies at the average auction price which had always been higher than the minimum release price.

The cost of production per tonne (inclusive of reasonable return on capital at 12½ per cent) as determined by the Cost Accounts Officer of Government of India and the ultimate average return as paid by the Board to the planters for the seasons 1973-74 to 1977-78 were as under:—

Season	Cost of production (inclusive of reasonable return on capital)	Average return to planter (after providing for taxes and duties)	Percentage of gain over cost of production
1973-74	5,568	8,860	59
1974-75	6,800	8,530	25
1975-76	6,800	13,440	97
1976-77	7,680	19,360	152
1977-78	7,680	12.000*	56

*Provisional

It would appear from the above the total return to the grower in addition to reasonable return on capital had been substantially high and consequently no part of the excess gain had been passed on to the consumer, though this was recommended (December 1975). by the Cost Accounts Officer of the Government of India.

4.1 Under section 25(4) of the Act, the Board is required to prepare a differential scale for the valuation of coffee delivered for inclusion in the surplus pool. The value, thus, determined is applicable to qualiay of coffee at the fair average quality (FAQ) Level. This FAQ level is determined for each season based on the overall quality of coffee available during a seasons and plus/minus points are awarded for coffee of better|poorer quality over/below FAQ level for a proper estimation of its price. Most of the Small growers opt for payment before curing and before determination of FAQ points and their rates are determined on quantity of coffee supplied by equating uncured coffee to cured coffee of FAQ standard weight on the basis of a prescribed formula; deductions are made for excess moisture, stones, husk; etc. Thus, payment in these cases is for FAQ quality or even less. The large growers, however, get their coffee valued after curing with reference to FAQ level and are paid at the admissible point rates. A review of the total points awarded to the large growers in respect of one type of coffee (plantation) for the 5 seasons 1973 to 1977 revealed that the award of plus points had been on the increase as indicated below:—

Season	No. of points if the entire coffee pooled by large growers is assessed as FAQ standard	No. of points actually awarded including FAQ plus and FAQ minus	Net increase in points	Percentage increase
			(in lakhs)	
1973-74	352.97	355.96	12 99	0.85
1974-75	484.24	486.21	1.97	0.41
1975-76	350.16	359.29	8.33	2.37
1976-77	466.16	478.16	12.00	2.57
1977-78	525.17	538.88	13.71	2.61

The substantial increase in plus points would indicate that either FAQ fixed in successive years was low or valuation of points was liberal. The Board stated (June 1980) that from 1978-79 season, the preparation of FAQ samples had been made more rigorous by constituting a special panel comprising personnel well experienced invisual assessment of coffee.

4.2 The curing firms also function as pool agents of the Board for a variety of services besides curing, such as receiving and storing surplus pool coffee and making payments to growers from funds provided by the Board. The remuneration payable to the agents for curing and agency function in each season is fixed by the Board with reference to the cost study conducted by the Cost Accounts Officer deputed by Government. During 1973-74 to 1977-78, agency remuneration amounting to Rs. 245.27 lakhs in all was paid by the Board to the pool agents. It was noticed in audit that for the seasons 1974-75 to 1975-76 and 1976-77 to 1977-78, the Cost Accounts Officer had recommended remuneration of Rs. 213 and Rs. 266 per tonne whereas the Board fixed it at Rs. 245 and Rs. 282 per tonne respectively. The Board treated the cost study by Government as recommendation in nature to enable the Board to determine the ultimate rates and stated (November 1980) that the Board considered the higher rates reasonable and that the curing industry was not agreeable to accept the rates recommended by the Cost Accounts Officer.

An analysis in audit of the reasons for the increased rates, however, revealed the following position:

(i) The Board has allowed a return on capital at 19 per cent plus Rs. 7.75 per tonne towards bonus for the seasons 1974-75 to 1975-76 whereas the Cost Accounts Officer had recommended a return of 12½ per cent only which included bonus as well. The increased return was allowed by the Board on the consideration that the Ministry of Heavy Industries had been allowing a return of 16 per cent on capital; this 16 per cent, however, included element of bonus as well, whereas coffee Board not only allowed a higher percentage of return, but also bonus in addition. The consequential excess payments worked out to Rs. 27.03 lakhs for 1976-77 and 1977-78 seasons.

(ii) Whereas the recommended rate for 1976-77 and 1977-78 seasons provided Rs. 22.61 per tonne towards interest on borrowings, which was calculated at the average rate paid by the curers, the Board allowed interest at 12 per cent of the borrowings irrespective of the actuals and provided for a sum of Rs. 38.78 per tonne. This resulted in additional payment of Rs. 34.87 lakhs to the agents for the seasons 1976-77 and 1977-78.

(iii) The Board paid a rehabilitation allowance at Rs. 5 per tonne in each of the seasons against actual purchase of machinery (total payment involved Rs. 6.33 lakhs), whereas the Cost Accounts Officer held this inadmissible as the fair rate of return already provided to the curers, was intended to cover cost of purchase of the machinery as well.

4.3 According to pool agency agreements, the pool agents are responsible to store safely under proper storage conditions all the coffee

belonging to the Board until it is disposed of by the Board. The Board has been permitting the curers in the coastal areas (which account for 40 per cent of total coffee cured) to keep only limited stock of cured coffee with them during the monsoon and allow them to transport each year was over 10,000 tonnes; the expenditure on transport amounted to about Rs. 38 lakhs in 1976-77 and 1977-78 seasons on a quantity of 31,600 tonnes.

Research conducted on behalf of the Coffee Board by Central Food Technological Research Institute (C. F. T. R. I.), Mysore revealed (1964-65) that coffee could be stored in coastal areas even during monsoon without any adverse condition, by adopting a technique known as 'ballooning technique'; this technique consists of using 250—300 gauge polythylene film as dunnage over which Coffee bags are stacked neatly and finally covered with a polythene sheet to prevent the ingress of the moisture from the humid atmosphere. This technique was estimated to cost Rs. 0.40 to 4.000 per bag of 75 kgs. during the first year depending upon the quality of materials used, which could be reused in subsequent years. This technique, though recommended by the Board as per provisions in its Manual, had not been adopted by the curers and the Board had also not insisted on its adoption. Had this been done, expenditure on transport (Rs. 38 lakhs) could have been largely avoided.

The Board stated (September 1980) that apart from protecting the stock from the effects of monsoon, the movement of coffee from the west coast to inland centres is undertaken to meet the market demand. According to the conditions of auction, however, it is the responsibility of the dealers, who participate in the auction to take delivery of stock at their expense from the warehouses in which the auctioned lot is stored.

4.4 According to experiments conducted by CFTRI (1969) at the instance of the Board, green coffee gains in weight from April onwards and reached maximum weight by October|November. An analysis of the net gain-in-weight in the coffee handled by all the pool agents revealed that while the percentage of gain in weight up to 1961-62 was 1 per cent, it came down to 0.1 per cent over the years up to 1976-77. However, in the coffee depots under the charge of the Board, there had always been a loss in weight in the coffee handled by depots, varying from 0.4 to 0.7 per cent from 1961-62 seasons, even though the curing centres, situated in the same place as the depots, had recorded increases in weight during the same periods. Test-check in audit revealed that in one depot the losses in weight for 1975-76 and 1976-77 seasons were 0.63 per cent and 0.72 per cent respectively, whereas in curing centres situated at the same place there were gains in weight by 1.30 per cent

and 1.25 per cent respectively. Compared with this, the value of loss in weight of coffee during 1975-76 and 1976-77 seasons worked out Rs. 195.72 lakhs and Rs. 326.40 lakhs respectively.

4.5 In respect of direct export of coffee by the Board, sales are effected normally by two methods; one method is by spot sale where offer in valid for acceptance in 24 hours and the other is by long term quantity contracts wherein for predetermined quantities, export is effected over a period of time, the price being determined at the exchange rate ruling on the day of shipment on the basis of average price secured in the immediately preceding auction and after taking into account export duty, customs, clearing and forwarding charges, etc. It was, however, noticed in audit that the rates had not been correctly worked out on the above basis resulting in less realisation (Rs. 80.17 lakhs) to the Board in certain cases cited below.

(i) During December 1978 and January 1979 coffee was shipped to 3 importers in a foreign country on a long term contract basis. In respect of 2 importers (A and B) the price was fixed monthly taking into account the average of the International Coffee Organisation indicator prices for the first 3 days of the month, whereas in respect of the other importer 'C' the price was determined with reference to the average price secured in the export auction immediately before the date of fixation of price. This resulted in wide variation of price for coffee shipped at the same time as indicated below:

Month	Rate fixed for A and B	Rate fixed for 'C'
	(Rupees per tonne)	
December 1978	22,260.66	23,221.48
January 1979	22,165.98	23,543.57

This led to a protest from firm 'C' and with reluctance it agreed to purchase January 1979 quota at Rs. 22,821.58 per tonne. In all the three cases, had the prices been fixed in the manner adopted for 'C' as per policy decision, consequential loss of Rs. 39.17 have been avoided.

(ii) In August 1977, the Board entered into a contract with a foreign importer for direct shipment of 500 tonnes of coffee. The prices offered ranged from Rs. 29.180 per tonne to Rs. 33.640 per tonne depending on the variety and the grade of coffee. These rates were based on the average prices secured by the Board in the export auction held on 10th August 1977. The actual F.O.B. rates of India coffee in the foreign country during August 1977 ranged from Rs. 42.259 to Rs.

47,858 per tonne (Source: Indian Coffee April 1978 Issue). According to a decision of the marketing committee of the Board, prices offered for direct sales should also take into account, steep escalation in prices in the foreign market immediately after the auction. Despite this directive, the steep escalation in the foreign market was not taken into account and the Board lost nearly Rs. 41 lakhs by selling coffee at a rate based merely on the average export auction price.

4.6 Drawback is allowed by the customs authorities in respect of excise duty paid on gunnies used for packing coffee exported to other countries. For direct sales of coffee by the Board to foreign importers, the clearing and forwarding work is entrusted to agents, who are responsible for ensuring that the coffee meant for export is duly packed, transported from the warehouse and placed on board the ship after getting customs clearance. The charges payable to the agents include, among other things, the cost of gunnies used by them for packing coffee. The drawback amounts (Rs. 17 lakhs for the period 1972-77) claimed later by the Board on the value of gunnies were, however, passed on to the agents by the Board on the ground that the agents had paid the excise duty on the gunnies purchased by them. As the cost of gunnies (alongwith the element of excise duty) had already been included in the charges paid to the agents, the drawback amounts should have accured to the Board. The agreement entered into between the Board and the agents also did not specifically provide for this payment to the agents. The Board stated (June 1980) that it was a mutual understanding between the Board and the agents in this regard; there was, however, no documentary evidence to support this contention.

5. *Propaganda*

5.1 The propaganda department of the Board runs coffee houses in certain places in India with a view to popularising coffee. It has also established several coffee depots all over the country for selling raw and powdered coffee. The Board also maintains coffee vans for serving liquid coffee in certain metropolitan cities. Prior to 1957, there were about 50 coffee houses run by the Board all over the country. In November 1957, Government took a decision to close down all, but 3 coffee houses as they no longer served the purpose of promotion of the coffee drinking habit and as the cost of running of the coffee houses was not commensurate with their usefulness as propaganda units.

However, new coffee houses were opened by the Board from 1960 and the number of houses|parlours had since gone up from 3 (1957) to 17 (1979). The losses sustained in the maintenance of the coffee

houses had increased from Rs. 16.7 lakhs in 1976-77 to Rs. 27.45 lakhs in 1978-79. Following points were noticed in audit:

(i) No norms for the staff to be employed by the coffee houses had been fixed. For example, the coffee houses at Calcutta had a strength of 55 workers for a turnover of Rs. 16.74 lakhs in 1977-78, while the one in Thirumalai had 145 workers for a turnover of Rs. 14.75 lakhs only (1977-78). In the coffee house at Bangalore 20 persons had been employed for a turnover of Rs. 2.55 lakhs (1977-78), whereas at Madras 25 workers had been employed for a turnover of Rs. 5.45 lakhs (1977-78). The Board stated (June 1980) that the question of fixing norms in this behalf was under consideration.

(ii) In addition to serving liquid coffee, the coffee houses were providing catering items. A major portion of the loss sustained by the coffee houses was attributable to the losses on catering items. Several coffee houses could not recover even the cost of raw materials in respect of these items. The losses sustained by coffee houses on catering items alone had been steadily increasing from year to year as indicated below:

	1976-77	1977-78	1978-79
	(In lakhs of rupees)		
Catering purchase	8.33	14.73	17.41
Establishment charges (*60 per cent of the total)	9.20	10.00	12.90
Total expenditure on	17.53	24.73	30.31
Catering sales	10.22	16.36	19.80
Net loss	7.31	8.37	10.51

*The share of expenditure on establishment attributable to preparation and serving of catering items has been taken as 60 per cent based on the estimated man-days required for catering items.

No periodical review of the prices was done by the Board inspite of increase in the price of raw materials. The Board stated (June 1980) that a review of the existing price structure of all items of sale in the coffee houses would be taken up immediately.

5.2 About 2,000 to 3,000 tonnes of coffee are roasted and ground annually in the coffee depots for preparation blend powder meant for release to consumers at fixed price Coffee loses weight during roasting. To have an effective control over the loss in roasting, the Board had laid down the maximum permissible level of loss at 17 per cent with reference to the initial moisture content as also the different types of roast. A review in audit of the accounts of roasted coffee relating to the coffee depots for the years 1974-75 to 1976-77 indicated that the overall loss in weight was higher than the ceiling of 17 per cent; in 8 out of 44 depots, the loss was as high as 20 per cent and in one depot it was consistently over 30 per cent. In terms of money value, the loss in excess of the permissible limit of 17 per cent in respect of all the depots for all the three years amounted to Rs. 12.14 lakhs.

The Board stated (June 1980) that technical committee constituted by it (May 1977) to review the roasting practices had recommended that the roasting loss should not exceed 20 per cent. According to international standards, however, loss up to 20 per cent could be there only in the darkest roast, whereas the Board promoted only medium roast.

6. *Other points of interest*

6.1 Under section 14 of the Act, all growers of coffee have to get their estates registered with the concerned State Government. Despite this statutory obligation, according to the Board (Coffee Statistics: 1978-79), there were 39,462 unregistered estates with planted area of 34,977 hectares at the end of 1977-78. Between 1976 and 1978 the Board launched a special drive to collect applications for registration and to forward them to the registering offices. It also reimbursed expenditure aggregating Rs. 2.77 lakhs to the State Governments for the special staff engaged in registration, even though the responsibility therefor was vested in the State Governments, which also collected fees for registration.

6.2 An evaluation committee constituted by the Board stressed that actual utilisation of fertilisers by coffee plants should be based on the 'leaf tissue analysis'. For conducting the analysis, the Board obtained necessary equipment valued at Rs. 4.88 lakhs during 1976-77 from an international organisation, but the leaf analysis laboratory had not yet (October 1980) been set up. The Board stated (June 1980) that the equipment could not be commissioned as the accredited Indian agent of the suppliers could not set right the equipment for want of spare parts to replace certain defective parts and that the matter had been taken up (September 1979) with the organisation and the original suppliers.

6.3 The research work on coffee carried out at Balehonnur and Chettali are mainly directed to crop improvement in Arabica production

as Arbica is in greater demand in foreign markets than Robusta. In pursuance of the recommendation of Public Accounts Committee (5th Lok Sabha: 1973-74) in its 130th report to intensify research efforts towards Robusta, the Coffee Board obtained land measuring 116 hectares during March 1976 from the Government of Kerala for establishing a Robusta research station at Kalpetta and paid Rs. 0.47 lakhs to the State Government as seigniorage charges. Though a Deputy Director was appointed from September 1977, for conducting research, not much could be done as the work of removal of timber trees on the land, which had to be handed over to the Forest Department of the Government of Kerala as per agreement, could not be completed. The Board stated (June 1980) that in the meantime a total area of 1.6 hectares had been planted with high yielding varieties of coffee and that the State Public Works Department had been addressed to prepare a blue print for different layouts (June 1980).

6.4 For bringing the benefits of research work to the holding of numerous small growers to us to increase their productivity, the research department of the Board introduced in 1974 a scheme for training young farmers in commercial and technical aspects of coffee. This was however, implemented only from the year 1978-79. Fifteen candidates belonging to small farmers families had been trained so far (June 1980) and an expenditure of Rs. 1.36 lakhs had been incurred on establishment and equipment. The Board stated (January 1981) that the trainining had ended in May 1980 only and that it would be too early to assess the impact of the benefit accrued to the farmers.

7. Summing up— The following are the main points that emerge :

— There was delay in the finalisation of the account of pool fund every year from 1972-73 season to 1976-77 season resulting in inordinate delay in placing the separate Audit Reports with audited account for the said years before Parliament.

—Development measures, *viz.* grant of loans for intensive cultivation, replantation, etc. undertakes at a cost of Rs. 14.26 crores by the Coffee Board had attracted less than 10 per cent of small growers who owned more than 90 per cent of coffee estates. The over-all productivity of coffee per hectare had been stagnating around 600 kgs. over the years, with production of 216 to 583 kgs. per hectares by small growers as against 774 to 1057 kgs. per hectare by large growers.

—As a result of their under-estimation of fair average quality (FAQ) of coffee produced in each season or over-estimation of the value of coffee brought to pool for sale, the points

awarded over FAQ level to the large growers had been on the increase from year to year. Further due to non-adoption of rates of return determined in a cost study, the remuneration payable to curers was fixed at a substantially higher level resulting in excess payment (estimated at Rs. 68.23 lakhs for 1976-77 and 1977-78 coffee seasons).

—In addition to a return of 12-1|2 per cent on capital included in the cost of production (based on a cost study done by Government) of coffee supplied to the surplus pool, the rates determined and paid (for the coffee seasons 1973-74 to 1977-78) by the Board to coffee growers resulted in additional gain of 59 per cent respectively of the cost of production.

— The disposal price of coffee exported by the Board had not been correctly estimated resulting in short recovery of Rs. 80.17 lakhs in 2 cases of exports. Further, drawback allowed in customs on gunny bags purchased by the Board by full payment to the supplier was again passed on to the clearing and forwarding agents, resulting in a loss of Rs. 17 lakhs to the Board during 1972 to 1977.

— The losses sustained in running of the coffee houses (17) increased from Rs. 16.75 lakhs (1976-77) to Rs. 27.45 lakhs (1978-79). The total loss on food items other than coffee amounted to Rs. 26.19 lakhs during 1976-77 to 1978-79.

— Though green coffee gains in weight during monsoon (April to October), coffee stored by the Board's depots during this period was losing in weight ranging from 0.4 to 0.7 per cent. Expenditure incurred on transporting coffee from the coastal godowns to interior during monsoon season which amounted to about Rs. 38 lakhs for the seasons 1976-77 and 1977-78 could have been avoided, if proper storage facilities as per scientific studies had been created in coastal areas.

[Paragraph 31 of the Advance Report of the Comptroller & Auditor General of India for the year, 1979-80, Union Government (Civil) relating to Coffee Board]

APPENDIX II

Statement of Conclusions and Recommendation

Sl. No.	Para No.	Ministry/Deptt. concerned	Conclusions/Recommendations
1	2	3	4
1	1.26	Ministry of Commerce	The Coffee Board as constituted at present consists of a Chairman and 32 members representing various interests. 10 of these members represent coffee growers (5 large growers and 5 small growers). Dissatisfied with the manner in which the present Board has been constituted, the growers' associations have made several representations to the Government. A writ petition has also been filed in the High Court of Kerala in September, 1981 challenging some of the nominations.
2	1.27	Do.	The Committee find that serious allegations have been made in the petition with regard to the manner of nomination of the representatives of growers as members of the Coffee Board. It has **inter alia** been pointed out that the Government has not formulated any principles as to how the consultation machinery should be employed and utilized while deciding on the nominations.

1	2	3	4
3	1.28	Ministry of Commerce	The petition states that considering the area of robusta cultivation in the whole country and the number of growers, Kerala plays a vital role in the coffee industry both in terms of the area under cultivation and the total number of coffee estates. The petition has pointed out that as against two representatives of the robusta growers from Kerala previously on the Coffee Board, the present Board has only one. Apprehensions have also been expressed with regard to nomination of three persons associated with one planter company to represent different interests.
4	1.29	Do.	It has been further pointed out that the appointment of Adviser (Coffee), North Eastern Council to represent "other interests" is improper for the reason that the interests which he represents have not been specified. Moreover, he is stated to be an employee of the Coffee Board now on deputation and as such is not entitled to be a member of the Board. Being an employee, he is subordinate to the Board and will not be able to give independent advice or assert his individuality to be effective in the deliberations of the Board.
5	1.30	Do.	As the matter is **sub judice**, the Committee would not like to go into the merits of the issue. They would, however, like to point out that it is necessary for Government to review the matter in depth so as to ensure that the representatives of the growers, who

are statutorily required to surrender their produce to the Coffee Board, get proper and balanced representation on the Board. Government must also ensure that whosoever is nominated as a representative of the growers, truly represents their interests and that the associations of the growers, particularly small growers, are fully consulted and their views given proper weightage while making the nominations. The Committee would like Government to lay down clear and specific guidelines in this regard.

6 1.31 Do.

The Committee are further of the view that since the Coffee Board has an ambitious programme to promote coffee in the non-traditional areas, it is necessary that such States are given due representation on the Board. The Committee, therefore, suggest that the Ministry of Commerce should undertake an indepth study of the present constitution of the Board in the light of changed conditions and effect necessary reorganisation of the Board so as to ensure that it represents truly all the affected interests including the labour employed in coffee plantations. In this connection, it would be useful to remember that such Boards are set up to serve the growers. The Committee therefore, desire that the representation of small growers who constitute more than 90 per cent of the total number of growers, should also be suitably augmented. The Committee would like to be apprised of the decisions taken in the matter as early as possible.

7 1.32 Do.

As early as in September, 1976 the Marketing Committee and the Executive Committee of the Coffee Board decided "to commission a detailed study of the Board's organizational set-up from the

1	2	3	4
			point of view of its adequacy to handle its present assigned role and responsibilities and the future development needs with a view to re-organize the organizational structure and streamlining and modernising the methods and procedures of its working to meet the requirements of a growing efficient commercial body." The Minutes of the aforesaid meetings of the Marketing Committee and the Executive Committee were forwarded to the Ministry in the usual manner. However, the Ministry was not specifically consulted by the Board before entrusting this study to the Indian Institute of Management, Ahmedabad.
8	1.33	Ministry of Commerce	The Committee find that on receipt of the Report of the Indian Institute of Management, Ahmedabad in May, 1978, the Board constituted a Special Committee to consider the Report and to review and propose necessary amendments to the Coffee Act/Rules. With the term of the Board coming to a close in February, 1981, the terms of the Special Committee also came to a close. The Executive Committee of the new Board, which was constituted by the Government of India with effect from 1st July, 1981, re-constituted the Special Committee at its meeting held in November, 1981. The Special Committee is expected to submit its final report to the Executive Committee and the Board shortly.

9	1.34	Do.	The Committee are greatly surprised to find that in such important matters as the review of the Coffee Act and the functioning of the Board in the light of changed conditions, the Board did not deem it necessary to keep the Ministry apprised of its decision to commission the services of the Indian Institute of Management, Ahmedabad. The Committee are not convinced with the argument that "there is no specific requirement under the Act or Rules for prior consultation with Government". The Committee are of the view that a study of such far reaching implications as this, *inter-alia* in the light of the observations of the PAC from time to time, ought to have been initiated by Government or atleast the terms thereof settled with the specific approval of Government. It is regrettable that the Ministry did not even take any cognizance of the minutes of the Executive Committee and the Marketing Committee containing their decision to institute the study. This only indicates the perfunctory nature of monitoring done by the Ministry with regard to the functioning of the Coffee Board.
10	1.35	Do.	The Committee regret to point out that even after a lapse of 4½ years since the Report of the Indian Institute of Management Ahmedabad became available to the Coffee Board, there is no evidence of any concrete steps having been taken by the Board or by the Ministry to implement the acceptable suggestions contained therein. It is obvious that had the Ministry kept a track of this development, matters would not have been allowed to drift. In

1	2	3	4
			paragraph 1.25 the Committee have been attention to several useful suggestions which need to be given serious consideration. The Committee would therefore urge the Ministry to come out with specific proposals for reorganization of the Coffee Board so as to ensure that its functioning is re-oriented and streamlined to enable it to meet successfully the changing conditions in coffee cultivation, industry and trade both in India and abroad. The Committee desire to be furnished with a detailed report on the action taken on the various suggestions contained in the study made by the Indian Institute of Management, Ahmedabad within a period of six months.
11	2.15	Do.	The Audit para has pointed out that surpluses in the Pool Fund after making payments to the growers and meeting expenses on storage, curing, transport, marketing etc. are required to be transferred to the General Fund with the previous sanction of Government. As on 31 October, 1978 the accumulated surplus in the Pool Fund Account amounted to Rs. 16.16 crores. The Committee have been informed that this figure represents amounts awaiting distribution amongst the growers in respect of coffee pooled by them but not yet claimed by them and that such balances were allowed to be carried forward for three to four years from the date of becoming due. The outstandings had been reduced to Rs. 81.63 lakhs relating to 1975-76 and 1976-77 Coffee seasons. The Ministry

			had assured the Committee that the balances were being reviewed and after making payments to growers fully, the remaining amounts were expected to be transferred to General Fund by 31 December, 1982.
12	2.16	Do.	The Committee are concerned to note that an inordinately long time is taken in the process of accounting of disbursals and exhibition in the relevant years' accounts and making final payments to the growers. In a later section of this Report, the Committee have emphasised the need for streamlining the accounting system with a view to reducing the timelag in the finalisation of the accounts and their submission to Audit. This is important since a large majority of the growers are small peasants who look to the Board for quick payment of their dues. The Committee are emphatic that consequent to the decision to shorten the accounting period to 12 months all endeavour would be made to make payments to the growers expeditiously. The Committee consider that normally final payment to a grower should not be delayed beyond 18 months for produce pooled in any one coffee season or beyond six months of closing the accounts.
13	2.17	Do.	The Committee find that the Pool Fund moneys are kept by the Board in Current Account with the State Bank of India, Bangalore with whom the Board has arrangement for overdrafts. On an average, payment is made to growers once in two months. During the period between two payments the cash if available is kept in short term deposits with the Banks approved by the Government

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			for the purpose. The interest earned on such short term deposits gets merged in the general cash balance in the Pool Fund and is distributed to the growers through periodical declarations of payments.
14	2.18	Do.	From the information supplied to them, the Committee find that during the period September, 1978 to November, 1981, the amounts so deposited in bank ranged between Rs. 10.01 lakhs (21 July, 1981) to Rs. 1560.00 lakhs (11 December, 1980) while the number of days for which the money remained deposited ranged between 15 and 71 except on two occasions when the money was kept for 107 days. Most of the deposits were, however, for 15 days only and the interest earned thereon was 2-1/2 per cent. The Committee consider that it would be useful to evolve a system whereby payments are made to the growers on a fixed date, say, first week of the third month so that more interest could be earned on bank deposits for the benefit of the growers.
15	2.32	Do.	From the information furnished, the Committee find that the time taken for completion of the Pool Fund Accounts during the pool fund years 1970-71 to 1978-79 has ranged between 18 to 24 months. The further time taken for submitting the accounts to audit was between 9 to 14 months in seven out of these nine years.

			Thus, the entire process took inordinately long time. Since 1979-80, the Coffee Board has, as an experimental measure, reduced the period of closing the accounts to 12 months starting from 1 January and ending on 31 December.
16	2.33	Do.	As early as in October 1965, the Public Accounts Committee had, in para 2.35 of their 41st Report (Third Lok Sabha), drawn attention of the Ministry to the need for reducing the time lag in presenting the accounts of the Pool Fund in consultation with the C&AG. The Committee are distressed to find that no such consultation has taken place during the last 16 years and that no timely effort has been made to reduce the huge time lag. It is only after receipt of the present audit report that the Board appears to have taken certain steps for reducing/eliminating the delays in compiling the accounts viz. altering, where necessary, the old procedures and/or installing new internal procedures to speed up the receipt of accounting information, changing and improving the accounting forms; reducing the accounting period to 12 months as an experimental measure; starting preliminary work on improvement of accounting system and establishing facilities for training of staff and supervisors etc.
17	2.34	Do.	The Committee consider it imperative that the accounting methods are streamlined to enable the Coffee Board to handle the increasing volume of transactions and timely submission of Accounts to Audit and audited accounts to Parliament. The Committee would, therefore, urge that the above stated steps designed

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			to make for speedy compilation of accounts and audit thereof, are pursued vigorously in consultation with the C&AG. The Committee would watch with interest the results of these efforts which should be reflected in the finalisation of future accounts. The Committee would like to emphasise that the accounts should be invariably closed within six months of the close of Coffee season for submission to Audit.
18	2.35	Do.	In this connection, the Committee would also like to point out that while the accounts of the General Fund are required to be submitted to the Central Government along with the Auditor's Report thereon are submitted to the Coffee Board for approval and that these are placed before Parliament only as a matter of convention. The Committee are of the view that this practice should continue and in due course the Coffee Act should be amended suitably so as to cast a statutory duty on the Coffee Board to place these accounts before Parliament in the interest of accountability.
19	2.36	Do.	In this connection the Committee would further like to draw attention to the need for proper budgeting of the Pool expenses. As pointed out by the United Planters' Association of Southern India, annual budgeting is done only in regard to the administration of the Pool Fund which forms barely 4 per cent of the total

			Pool expenditure. As further pointed out by the Association, the feasibility of reintroducing the practice in vogue until 1971-72 season of incorporating the Income & Expenditure Statement and the Balance Sheet of the Pool Fund in the Board's Annual Report should be examined to ensure proper control over the Pool Fund expenditure. The Committee need hardly underline the desirability of exercising greater vigilance in the scrutiny and control over the Pool Fund expenditure which is stated to have an annual inflow of about Rs. 200 crores. The Committee, therefore, urge that the entire budget of the pool fund should be got approved by the Coffee Board.
20	3.9	Do.	India is among the top seven coffee producing countries in the world. The production of coffee during the decade 1971-72 to 1980-81 has gone up from 68.948 tonnes to over 1.15 lakhs tonnes. During the year 1979-80, the production reached a peak of over 1.49 lakh tonnes which is stated to be the highest on record in the country. The average productivity per hectare of bearing area is stated to have increased from 555.14 kilograms in 1971-72 to 885.32 kilograms in 1979-80.
21	3.10	Do.	In terms of planted area, the productivity is stated to have increased from 498 kilograms per hectare in 1971-72 to 574.78 kilograms in 1978-79. The data for the coffee seasons 1973-74 to 1978-79 given in the Audit Report, however, indicate that the production has stagnated at around 600 kilograms per hectare of planted area, except during 1977-78 when the production shot up to 710 kilograms per hectare. The Committee have been informed that the data

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			adopted by Audit was based on the figures indicated in a circular issued in August, 1979 by the U.S. Department of Agriculture who in turn were stated to have collected the same from their own sources in our country. The Committee consider it unfortunate that no attempt was made by the Ministry to correct the discrepancy till the matter came under examination of the Committee.
22	3.11	Do.	The Committee find that till recently the productivity in India was determined on the basis of the planted area rather than the harvested area as per international practice. The data for India shown in the FAO's Production Year Book (1979) is also stated to be on the basis of the planted area and not the harvested area.
23	3.12	Do.	The Committee find that in respect of such other commodities as tea and cardamom also, the international practice is to reckon productivity on the basis of bearing area. However, 'Tea Statistics' brought out by the Tea Board annually continues to present productivity with reference to planted area. The Committee consider that such anomalies in the presentation of data which are published by the FAO and other international agencies need to be rectified immediately. The Committee would like Government to issue necessary instructions in the matter without loss of time.

24	3.26	Do.	The Committee find that of a total of 70,509 coffee estates registered as on 31-3-1979, as many as 56,159 holdings were below two hectares and another 12,268 estates had a planted area of over two hectares but less than ten hectares. Thus, over 97 per cent of the holdings are small holdings with limited financial resources and low productivity. The Committee have been informed that in view of several variable and interacting factors such as plant material, age of coffee plants, level of cultivation, application of inputs, timely and adequate rainfall, elevation, soil fertility, etc., it has been found difficult to precisely define an economic holding. According to the statutory definition, a small grower is considered to be one who holds upto 20 hectares (50 acres). The Ministry have stated that while for production statistics the statutory definition has been adopted, for the purpose of extending financial assistance to small growers, those owning upto ten hectares are considered as small growers.
25	3.27	Do.	The Committee are amazed to find that so far no attempt has been made to lay down a definition of an economic holding so far as coffee estates are concerned. The Committee consider that in order to ensure that concentrated attention and maximum financial and other assistance is made available to the uneconomic units in order to make them economically viable, it is necessary that this lacuna is removed without delay. The Committee would like to point out in this connection that in the land ceiling laws passed by various States, due consideration has been given to the variable factors within different districts or areas in a State, such as the

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			nature of the soil, climatic conditions, etc. which are applicable to Coffee plantations also. There is no reason why an exercise of this nature cannot be attempted successfully in case of coffee plantations in order to determine economic size of holdings region-wise and variety-wise. The Committee expect that the assurance given to them in this regard by the representatives of the Ministry during evidence would be carried out early.
26	3.39	Do.	The Committee note that the Coffee Board has introduced six types of developmental loan schemes for assisting the coffee growers to meet their long term and short term needs. These are-(1) Intensive Cultivation Loan, (2) Special Purpose Loan, (3) Extensive Cultivation Loan, (4) Corp Loan, (5) Replantation Loan and (6) Loan for Purchase of Equipment and Machinery on hire purchase terms. Audit have pointed out that till the end of 1978-79 only a small percentage of the small growers (owning less than 50 acres each) had taken advantage of the various developmental schemes despite the fact that they represented 90 per cent of the growers. The data furnished by the Ministry for subsequent years shows, that there has been hardly any visible improvement in the situation. During the years 1978-79 to 1980-81 only 7.815 growers out of a total of 69,524 growers (11.2 per cent) owning upto 20 hectares availed of the various loan schemes. The total amount

			disbursed during these years under all these schemes was Rs. 9.54 crores only. Of this, the share of 5,831 small growers owning upto 4 hectares was Rs. 3.26 crores. Thus, the smallest of growers who constitute bulk of the growers in this category and who need maximum assistance, received only 33 per cent of the loans.
27	3.40	Do.	It is obvious that the various schemes of financial assistance floated by the Coffee Board have benefited only a very small percentage of growers and the smallest of them have in fact been neglected. The study carried out by the Indian Institute of Management, Ahmedabad has pointed out that while the bigger coffee growers make demands on the Board's services and have benefited from them, the small growers, because of their ignorance, inertia, lack of conviction or poor organization and economic resources have not responded to the Coffee Board's range of services and that they continue to depend on non-institutional finance. This is indeed unfortunate and reflects the indifference of the Board to the requirements of the small grower. The Committee desire that a thorough evaluation of the various loan schemes should be carried out without delay so as to ascertain the reasons for the inability of the Coffee Board to reach the small grower and to re-orient the incentive schemes into a purposeful package for achieving the desired results, viz. improvement of the lot of the small cultivator and augmenting productivity per hectare, which are complementary objectives.
28	3.41	Do.	The Committee urge that financial assistance on a much larger scale than provided so far should be arranged if the productivity

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			of the small grower is to be stepped up. Apart from the Board subsidizing the interest payable by small growers, the feasibility of getting bank credit extended to them directly under the Differential Rates of Interest (DRI) Scheme may also be considered by the Government. The question of providing banking facilities in these areas should also be taken up by the Coffee Board with the Ministries of Commerce and Finance. Needless to say that the procedures for sanctioning loans have not only to be simplified and streamlined, wide publicity should also be given to the various schemes in the coffee growing areas in the regional languages.
29	3.49	Do.	The Committee find that the average yield of small growers who constitute more than 97 per cent of the registered growers varied from 216 Kgs. to 583 Kgs. per hectare as against the productivity of large growers ranging between 774 Kgs. and 1,057 Kgs. per hectare. The Committee have been given to understand that in order to increase the productivity in the small growers' sector, the Coffee Board has initiated several loan schemes. such as, the Liberalized Crop Loan Scheme, the Interest Subsidy Scheme, etc. Besides, a number of extension centres have been established for providing advisory services to the small growers. Demonstration farms have also been established at various places to demonstrate improved methods of coffee cultivation to small growers. A mobile pest surveillance squad has also been set up to monitor study of pests and

			diseases and also to educate the growers in methods to combat these. As a result of the measures taken by the Board, the share of the small coffee growers in the total coffee production is stated to have gone up from 42 per cent in 1974-75 to 51 per cent in 1979-80. It has been further claimed that in Kerala, where the concentration of small growers is the highest, coffee production has increased by 300 per cent during the last five years as a result of the special drive undertaken to improve productivity. The growth is indicative of the potential that can be achieved.
30	3.50	Do.	In this connection, the Committee would like to draw attention to the observations of the Indian Institute of Management, Ahmedabad that the efforts of the Coffee Board to promote co-operatives amongst the small coffee growers have not yielded any significant results. The Committee would urge that the Board should redouble its efforts in this direction so that the small coffee growers could be helped in a substantial manner via the co-operatives.
31	3.51	Do.	The Committee understand that in order to provide more effective extension service to the small growers the Board have reduced the jurisdiction of extension officers from 15,000 to 5,000 hectares. The Committee consider that apart from providing more financial resources to the small growers, it is necessary for the Board to make available the services of skilled personnel to the small farmers who are largely illiterate and ignorant of modern methods of coffee cultivation The extension staff must be given a phased and well-thought-out programme for stepping up production in the small

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			estates and they must be made accountable for achieving the targets. The Committee are of the view that the expansion of coffee cultivation in non-traditional areas calls for further strengthening and augmenting the number of demonstration farms/extension centres as well as setting up of regional research centres like the one established recently in Tamil Nadu in collaboration with the Agricultural University at Coimbatore. The Committee would urge the Board to take energetic steps in this direction under a time bound programme.
32	3.60	Do.	From the data furnished to the Committee, it is seen that there are very wide fluctuations in the rate of return to the growers. In respect of arabica, the rate of return during the period 1973-74 to 1978-79 has varied from 6 per cent in 1978-79 to 60 per cent in 1975-76 (excluding 1976-77 which is stated to be a freak year as the international prices rose to abnormal heights and the percentage of gain was as high as 134). Similarly, in respect of robusta coffee the return has varied from as low as 5 per cent in 1974-75 to 62 per cent in 1975-76 and 97 per cent in 1976-77. It is further observed that the rate of return has dipped from 43 per cent in 1977-78 to 6 per cent in 1978-79 in the case of arabica and from 44 per cent to 16 per cent in the case of robusta coffee. The need for ensuring steady

returns, particularly to small growers while at the same time protecting the interests of the consumers. is therefore quite obvious. The Committee understand that the Indian Institute of Management, Ahmedabad has sugested setting up of a price stabilization fund to smoothen the fluctuations. The fund can be used to supplement payments to growers during the period of poor realizations and/or to hold stocks for obtaining better prices (with international market) at a later date. The Committee would like this suggestion to be examined in all its aspects and an early decision taken.

33	3.61	Do.	So far as the question of working out the cost of production of coffee is concerned, the Committee understand that a team of Cost Accounts Officers of the Ministry of Finance periodically reviews the same. An exercise of this nature was last made during December 1975. Since January 1982, another team of five Cost Accounts Officers is stated to be examining the question.
34	3.62	Do.	The costing study ought to be based on adequate knowledge not only of the scale of economy or locational features of coffee plantations but also of the different seasonal and cultural factors. The Coffee Board, equipped as it is with the necessary data and expertise in the matter, should therefore be closely associated with the costing studies carried out by the team of the Cost Accountants of the Government of India. If necessary, services of some eminent economists may be utilised for the purpose. In this connection it may be mentioned that coffee which is produced mainly by small growers is losing in value compared to other commodities such as tea, rubber,

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			black pepper etc. Moreover, there is monopoly procurement and monopoly disposal of this commodity. No scientific system of costing of coffee has so far been evolved by the Coffee Board. The Committee would, therefore, like the Coffee Board to go into this question and evolve a suitable costing system with a view to working out a fair price for the consumer as well as the grower.
35	3.67	Do.	As at the end of the year 1977-78 there were as many as 38,462 unregistered estates with planted area of 34,977 hectares. The Committee were given to understand that a census of coffee estates, both in traditional and non-traditional areas, had been taken up (September 1981) and the exact number of unregistered estates would be known after the census was completed. However, 14,160 applications for registration of coffee estates were stated to be pending with the various registering authorities. Earlier, a special drive launched between 1976 and 1978 had revealed that the number of estates pending registration was 35.253. During this period of two years, a total of 46,000 estates were registered which included most of the 35,253 estates and also newly planted estates.
36	3.68	Do.	The Committee attach considerable importance to the question of prompt registration of coffee estates. From the standpoint of the Coffee Board itself registration of coffee estates would result in

bringing more coffee to the pool. The Committee, therefore, consider that sustained publicity needs to be given to the advantages following from registration of coffee estates, especially in regard to eligibility for financial assistance. The Committee have no doubt that the Board would intensify their efforts in this direction. The Committee are further of the view that a biennial census of the coffee estates should be undertaken. The assistance of the extension staff might usefully be availed of in this work.

Periodic socio-economic surveys should also be undertaken as already stipulated in IRDP scheme. The Committee further recommend that a time bound programme should be laid down for registering the pending applications. New applications should be registered within six months failing which the estate should be deemed to have been registered.

37 3 8a Do.

The curing firms also function as pool agents of the Coffee Board for a variety of services besides curing, such as receiving and storing surplus pool coffee and making payments to growers from funds provided by the Board. The remuneration payable to the agents for curing and agency functions in each season is fixed by the Board with reference to the cost study conducted by the Cost Accounts Officer deputed by Government. Audit have pointed out that for the seasons 1974-75 to 1975-76 and 1976-77 to 1977-78 the Board made payments to the curing firms at the rate of Rs. 245 and Rs. 282 per tonne respectively against the recommended remuneration of Rs. 213 and

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			Rs. 266 per tonne respectively. Analysing the reasons for the increased rates, Audit have pointed out that for the seasons 1974-75 to 1975-76 the Board allowed a return on capital at 19 per cent **plus** Rs. 7.75 per tonne towards bonus as against a return of 12½ per cent including bonus recommended by the Cost Accounts Officer. The consequential excess payments worked out to Rs. 27.03 lakhs for 1976-77 and 1977-78 seasons. Further, excess payment to the tune of Rs. 34.87 lakhs was made towards higher percentage of interest on borrowings for the seasons 1976-77 and 1977-78. In addition, the Board paid rehabilitation allowance to the tune of Rs. 6.33 lakhs at a rate of Rs. 5 per tonne during the above seasons against actual purchase of machinery.
38	3 83	Do.	The Committee have been informed that the Cost Accounts Officer's recommendations are not to be considered as an award binding on either the Coffee Board or the curers. At best, they serve only as a basis for negotiating the rates of remuneration payable to the curers for the services rendered by them. These have to be finally agreed upon through negotiation between the curers and the sub-committee of the Marketing Committee of the Board. The Committee are of the opinion that the whole position as narrated is rather unsatisfactory.

39	3.84	Do.	The Committee find that as on 31st January, 1982 the total licensed curing capacity was of the order of 1.14 lakh metric tonnes including 2,000 tonnes additional capacity licensed in December, 1981 in favour of two new curing works and additional capacity of 1,000 tonnes in an existing curing works. Compared to the total production of the order of 1.60 lakh tonnes estimated in 1981-82 the available capacity was short of requirements by about 0.46 lakh tonnes. It was conceded in evidence that on account of the gap between the supply and demand, the curing works were in a position to dictate terms to the Board. The Board is since stated to have taken action to encourage investment in curing works and 14 letters of intent have been issued for a total capacity of 75,000 tonnes. The Board are also stated to have submitted a project for setting up modern curing works in public/joint sector to the Government of India. The proposed curing capacity in the public/joint sector is expected to be 10,000 tonnes in traditional areas and 5,000 tonnes in non-traditional areas.
40	3.85	Do.	In their 130th Report (Fifth Lok Sabha), the Public Accounts Committee had recommended that pool agency and curing functions should be taken over forthwith. The Ministry had informed the Committee (November 1974): "It may not be advisable to separate curing and pool agency functions. Taking over of the curing establishments will amount to nationalization of the coffee curing industry. Even if Government decides to nationalize, it will have to be done in a phased manner. The Coffee Board

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			have no reserves of its own and the entire compensation will have to be met from out of the Consolidated Fund of India. Apart from the present economic situation of the country, whether the nationalisation is necessary has to be gone into....."
41	3.86	Do.	Reiterating the recommendation, the Committee, had, in Para 1.30 of the 139th Report (Fifth Lok Sabha) observed that the matter should be examined expeditiously in all its aspects and a detailed report furnished to them. Apparently, there has been no further consideration of the question by Government.
42	3.87	Do.	The Committee consider that the Coffee Board and the Plantation Crops Development Corporations in the States directly involved in coffee production, collection, etc., should play a more positive role in the matter of curing of coffee instead of allowing it to be handled by private agencies which are in a position to dictate terms to the Coffee Board. As most of the coffee curing works are very old and are saddled with outdated plant and machinery, their cost of operation is bound to be very high. The Committee therefore urge that the proposal to set up curing works in the public sector should be pursued vigorously with the ultimate object of taking over the entire curing function in a phased manner. The feasibility of setting up cooperatives of growers for undertaking curing

			work may also be examined. In non-traditional areas the function may be entrusted to the Plantation Crops Development Corporations or other State agencies.
43	3.88	Do.	The Committee find that at least 16 per cent of the pool agents do not have adequate godown facilities. The Committee urge that this deficiency should be made good without further loss of time preferably by the Board.
44	3 105	Do.	The perspective plan for production of coffee drawn up by the Coffee Board in collaboration with the National Council of Applied Economic Research during 1976 envisages the demand for coffee to be in the region of 2 lakh tonnes by the end of this century. The demand is proposed to be met by expansion of the coffee producing areas to an extent of 1.3 lakh hectares by 1993-94, of which 72,000 hectares would be brought under coffee cultivation in the non-traditional States and the rest in the traditional coffee growing areas. The Committee have been informed that so far as the Sixth Plan is concerned, it is programmed to achieve an expansion of 38,400 hectares, of which 22,900 hectares would be brought under coffee cultivation in the non-traditional areas.
45	3.106	Do.	The Audit para has pointed out that as against the annual target of 2,800 hectares fixed for non-traditional areas and 1,600 hectares for traditional areas for the year 1978-79 the actual achievement was 102.5 hectares and 4,691 hectares respectively. The development has therefore been much below the expectations in the non-traditional areas.

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46	3 107	Do.	In their study of the Indian coffee industry, the Indian Institute of Mangament, Ahmedabad have also pointed out (Para 3.93) that the experience of the Coffee Board in promoting higher production through bringing new areas under cultivation in traditional States has been relatively slow and yields have not been to the expectations. The study has further pointed out that while the schemes in this regard are intrinsically sound in their conception, the implementation calls for a high degree of expertise, conviction, proper orientation and long term interest. According to the study, the cooperative route appears to be the most promising one in terms of Coffee Board's objectives of increasing coffee production in new areas in the traditional States. The Committee had in their 130th Report (Fifth Lok Sabha) recommended that the Board should, with the active cooperation of the State Governments encourage setting up of cooperatives of small growers so that they may have the benefit of machinery and equipment which individual small growers cannot afford to purhase. The Committee would urge that the Coffee Board should play a more active role in promoting and establishing cooperative coffee plantations in the traditional States by providing the necessary share capital, organizational resources and technical skill/manpower. The Committee would like the Coffee Board to come out with specific proposals in this regard without loss of time.

47	3 108	Do.	So far as extension of coffee plantations in non-traditional States is concerned the Committee find that the Coffee Board have been pursuing with the State Governments the question of setting up of joint sector corporations. The States of Andhra Pradesh, Assam, Nagaland, Manipur, Arunachal Pradesh, Orissa, Kerala and Karnataka have so far set up forest/plantations development corporations charged with the responsibility of promotion of coffee in the respective States. The other non-traditional States, *viz* Mizoram, Tripura, Sikkim, Madhya Pradesh, Maharashtra and Andaman & Nicobar Islands have taken up developmental activities through their own departments of agriculture/forests. The delay in setting up the corporations is stated to be due to the inability of the State Governments to raise 1/3rd of the resources by way of equity so as to avail the facility of bank loans. The Committee find that so far only 7,000 hectares out of a total of 22,900 hectares proposed to be brought under coffee cultivation in the non-traditional areas during the Sixth Plan, have been brought under coffee plantations. The Committee also find that under the subsidy scheme introduced by the Coffee Board for development of coffee mainly in non-traditional areas, a sum of Rs. 3.12 lakhs only was spent as against the budgetary provision of Rs. 28 lakhs in 1979-80. Obviously, the preparatory work required to be done in this regard left much to be desired. Since the entire coffee development programme in the non-traditional areas is a 100 per cent tribal development scheme intended to assist the weaker and backward sections of the society, the Committee urge that schemes in this regard should be drawn up without delay and implemented on a phased basis.

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48	3.109	Do.	The Committee desire that the concerned agencies should be actively assisted by the Coffee Board in preparing detailed project reports and in getting necessary financial assistance therefor from the Agricultural Re-finance Development Corporation.
49	3.110	Do.	As land in the tribal areas cannot be alienated, it is imperative that the idea of setting up joint sector corporations to take up plantation of coffee with the assistance of governmental agencies is pursued actively. Elsewhere in this Report, the Committee have suggested that representatives of the non-traditional States should be given representation on the Coffee Board. The Committee further suggest that the States be pursuaded to have a nominee of the Coffee Board on the Boards of Directors of the State Coffee Corporations and to utilize the technical, managerial and consultancy services of the Coffee Board in making the corporations a success.
50	3.111	Do.	So far as the problem of availability of trained manpower is concerned, the Committee find that the Board have drawn up a three-level scheme for implementation during the Sixth Plan. It is proposed to establish training facilities in selected universities in traditional and non-traditional areas. Training facilities for supervisory personnel are proposed to be developed at 4 regional research stations in Kerala, Karnataka, Andhra Pradesh and Assam. It is also proposed to train labour maistries who will train labourers in

the coffee plantations. Special priority would be given to tribal youth and small farmers. The Committee understand that the Manpower Development Programme with a total outlay of Rs. 167.15 lakhs during the Sixth Plan is awaiting administrative clearance of the Government of India. The Committee trust that this would be forthcoming soon so as to enable the Coffee Board to play a leading role in providing technical support, extension and research facilities and in organizing training programmes.

514.9 Do.

The expenditure on Propaganda Department was of the order of Rs. 5.28 crores in 1978-79, Rs. 4.71 crores in 1979-80 and Rs. 5.19 crores in 1980-81 as against receipts to the tune of Rs. 5.67 crores, Rs. 5.42 crores and Rs. 5.87 crores in the respective years. The main objective and purpose of the Department is stated to be to promote domestic coffee consumption. In justification of the high volume of expenditure on the Department, the Ministry have furnished figures of coffee consumption in India, which indicate that over the last two decades the annual consumption of coffee has gone up from nearly 30,000 tonnes in 1960 to 50,000 tonnes in 1981 (estimated) i.e. at an average rate of about 3 per cent per annum. The Committee would like to point out that this increase cannot be attributed entirely to the efforts of the Propaganda Department. As coffee is a traditionally accepted beverage in the southern States, the Coffee Board could hardly take credit for the increased consumption in that region. Part of this increase is in any case attributable to the population increase. The Committee consider that the real test of success of the Board's efforts lies in the increase in coffee consumption in

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			non-traditional areas. The Committee find that although the consumption of coffee in non-traditional areas has increased from 8,737 tonnes in 1974 to 10,791 tonnes in 1979, such areas still account for only about 1/5th of the total coffee consumption in the country. The Committee therefore consider that the Coffee Board must concentrate its energies on popularising coffee in the non-traditional areas.
52	4.10	Do.	The Sixth Plan projects an increase of 15,000 tonnes in domestic consumption i.e. an annual increase of 3,100 tonnes as against the present level of increase of 2,000 tonnes per year. To start with, it is proposed to set up coffee promotional centres in 12 urban and industrial centres of the country for conversion of raw coffee into pure quality ground coffee and its distribution' dissemination of right techniques of coffee roasting, grinding and brewing, serving of good quality liquid coffee from a coffee bar attached to each centre and administration of publicity programmes around the centres in various localities. These centres would thus integrate all functions of coffee promotion keeping in view the situation obtaining in non-traditional areas. The Committee are of the view that the task of coffee promotion in non-traditional areas calls for a change in the outlook as well as perspective of the Coffee Board. A stage has now been reached when it is necessary that the Board ceases to be an organization looking after only the traditional areas in the South. It must expand its horizon to other non-traditional areas in the coun-

			try particularly in the North and North-East by actively involving the State Governments of these regions. The Committee suggest that for market development in non-traditional areas the Coffee Board should supplement its own channels of distribution and develop the normal trade channels also, so that it is in a position to reach the consumer in the remotest areas of the country.
53	4.18	Do.	Prior to 1957 there were about 50 coffee houses in the country of which all but three were closed down as the cost of running them was not considered commensurate with their usefulness as propaganda units. However, the policy underwent a change three years later and new coffee houses were opened from 1960 onwards. At present the Board is running 18 coffee houses in the country. The Committee find that the losses in running the coffee houses are on the increase from year to year. As against a loss of Rs. 10.81 lakhs in 1976-77 the loss was of the order of Rs. 19.07 lakhs in 1978-79 and Rs. 18.95 lakhs in 1979-80. It has been stated that the coffee houses are coffee promotional units with the objective of stimulating coffee drinking habit and hence these should not be viewed as commercial organisations making profits or losses.
54	4.19	Do.	The Committee are concerned over the high incidence of losses incurred by these units. It is surprising that while private parlours are thriving in this business. the Board are unable even to make the coffee houses run on a no-profit-no-loss basis.

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55	4.20	Do.	The Committee have been informed that an expert committee has been set up to conduct cost study and to evolve norms for staffing the coffee houses with a view to achieving economy in their working. The Committee expect that speedy and effective action would be taken in the light of the findings of the expert committee.
56	4.21	Do.	While the Committee have no objection to coffee being sold on a subsidised basis as a promotional measure in the coffee houses, they see no reason why the Board should not be able to make good the loss on other items. The Committee consider that mis-management and consequent losses can be obviated without taking recourse to retrenchment of workers. The Committee would therefore emphasize that the Coffee Board should ensure that the coffee houses are run atleast on no-loss no-profit basis failing which these should be handed over to a specialised Public Sector agency like the ITDC.
57	4 22	Do.	The Committee are of the view that instant coffee offers greater scope for popularising coffee in the non-traditional areas provided the cost is brought down. The Committee find that at present there are only two firms belonging to big houses in the country which are engaged in the manufacture of instant coffee with a total registered capacity of 4,170 MT of spray dried instant coffee per annum. The Committee had as far back as in 1973-74, drawn the attention of the Government to the desirability of setting up an

			instant coffee plant in the joint sector. It is regrettable that no concerete result has come out of this proposal so far.
58	4.23	Do.	The Committee would urge the Ministry to consider the feasibility of setting up a plant for production of instant coffee in the public or cooperative sector without delay. The Coffee Board must act as a catalytic agent for promotion of value added products such as instant coffee which would not only encourage domestic consumption but also promote export of coffee. By fetching better returns, it would act as a powerful stimulant for faster development of the coffee industry in the country.
59	4.28	Do.	The Public Accounts Committee had, in their 130th Report (Fifth Lok Sabha), recommended that the Coffee Board should ensure that out of the total quantity earmarked for internal consumption the Co-operative Soeieties and India Coffee Depots do get their share of 15 per cent and 10 per cent respectively. Government had informed the Committee in November 1974 that the Coffee Board would review its price policy and consider the question of restoring releases at the minimum release prices to these two channels of distribution. The Committee regret to find that inspite of this assurance, the Sub-Committee of the Marketing Committee thought it fit to recommend that the system of allotting coffee to the Co-operative Societies at an average of pool sale prices less 2½ per cent and 5 per cent respectively in respect of traditional and non-traditional areas be continued.

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60	4.29	Do.	The data furnished to the Committee shows that the quantity of coffee lifted by the Co-operative Societies has come down from 2.36 per cent of the total internal releases in 1978-79 to 1.60 per cent in 1979-80 and 1.40 per cent in 1980-81. The Committee feel concerned to find that the offtake of coffee by the Co-operative Societies is very negligible. Both from the point of view of popularising coffee and for holding the price line in respect of this beverage, it is essential to encourage its sale through Cooperatives Coffee Depots run by the Coffee Board. The Committee would therefore reiterate their earlier recommendation that at least 15 per cent of the total quantity earmarked for internal consumption should be made available to the Co-operative Societies and 10 per cent to the India Coffee Depots at the minimum release prices, taking adequate precaution to see that there is no malpractice in sales.
61	4.47	Do.	Exports of coffee have increased from 35.695 tonnes valued at Rs. 22.07 crores in 1971-72 to 89,018 tonnes valued at Rs. 215 crores in 1980-81. The unit value went up from Rs. 6,183 per tonne in 1971-72 to Rs. 24,152 in 1980-81. The Committee however observe that exports in relation to the total production of coffee in India have come down from 61 per cent in 1974-75 to 57 per cent in 1978-79. India's share of the total world trade in coffee, which was a meagre 1.68 per cent in 1977 and 1.90 per cent in 1978, declined to

			1.62 per cent in 1979. It would thus appear that the growth in production of coffee in India is not matched with the performance on the export front. The projections for the Sixth Plan envisage the production to go up from nearly 1.10 lakh tonnes in 1978-79 coffee season to 1.60 lakh tonnes in 1984-85. A growth rate of 5.5 per cent per annum in the exports is also visualized. The Committee consider that the Coffee Board will have to make all out efforts to promote export of coffee in the coming years. The Committee are of the view that the largely untapped markets in West Asia and other non-quota regions offer a good deal of scope for augmenting the exports of coffee. The Committee would therefore impress upon the Board the need to redouble their efforts in this direction.
62	4.48	Do.	Under Section 20 of the Coffee Act, the exports of coffee can be made only by the Board or under an authorization granted by the Board. It is by virtue of this provision that coffee is made available for exports through auctions by the Board. The Coffee Board also directly exports coffee, primarily to countries with bilateral trade agreements. The direct sales amounted to 31,676 tonnes in 1978-79, 44,950 tonnes in 1979-80 and 37,979 tonnes in 1980-81 representing 48.5 per cent, 72.8 per cent and 44.9 per cent of total exports in the respective years.
63	4.49	Do.	The Committee were informed during evidence that there were certain advantages in the present dual system of export of coffee by the Coffee Board and private exporters. The Committee suggest

*Figures pertain to the respective coffee seasons.

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			that the question of canalisation of exports through the Board should be taken up at the appropriate time and in the meanwhile the Board should be in a position to monitor the international prices with a view to ensuring that the export realisation in all cases does not fall below the ruling prices at any time.
64	4.50	Do.	The Committee were assured that the direct sales were invariably related to the preceding auction prices and that the country was not losing anything on such sales. It was however admitted that though the prices obtained through direct sales "can be more than the auction price but still the unit value realization need not necessarily be higher". The data for the years 1978-79, 1979-80 and 1980-81 called for by the Committee shows that the unit value per tonne of coffee realized through direct sales was Rs. 27,437 against the overall unit value of Rs. 22,965 in the first year. However, during the subsequent two years it fell short of the overall unit value, the comperative figures being Rs. 24.561 against Rs. 28,885 in 1979-80 and Rs. 18.570 against Rs. 24.150 in 1980-81. In this context the view expressed by the United Planters Association of Southern India that the direct sales agreements entered into by the Board need to be carefully monitored and that it is essential to associate the representatives of the growers in the negotiations for direct sales, therefore merits considration. The Committee would like to be

			apprised of the steps taken by the Coffee Board to ensure that malpractices are eliminated and the interests of the growers are fully safeguarded while negotiating contracts for direct sales and best value is obtained of the coffee sold through such sales vis-a-vis the auction prices.
65	4.51	Do.	The United Planters' Association of Southern India has further pointed out in its Memorandum to the Committee that the export duty on coffee has been revised as many as 23 times during the last five years and an all-time peak rate of Rs. 22,000 per tonne was levied in 1977-78. It has been stated that to look upon the export duty on coffee merely as a source of short-term revenue is inconsistent with the long-term prospects of our exports. Further, coffee does not enjoy the benefits of export incentives such as credit assistance, grants-in-aid, cash subsidy, import entitlement etc. It has therefore, been suggested that part of the export duty realization from coffee may be set aside and allowed to be utilized in further ance of the industry's developmental efforts. The Committee would like this suggestion to be examined and to be apprised of the decision taken by Government in the matter.

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